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FENNEMORE CRAIG
A Professional Corporation
Jay L. Shapiro (No. 014650)
2394 East Camelback Road, Suite 600
Phoenix, Arizona 85016
Telephone (602) 916-5000

Attorneys for Lago del Oro Water Company

ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION
OF LAGO DEL ORO WATER COMPANY,
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE FAIR VALUE
OF ITS UTILITY PLANTS AND
PROPERTY AND FOR INCREASES IN
ITS WATER RATES AND CHARGES FOR
UTILITY SERVICE BASED THEREON.

DOCKET NO: W-01944A-13-0215

**NOTICE OF FILING REBUTTAL
TESTIMONY**

Lago Del Oro Water Company (the "Company") hereby submits this Notice of Filing Rebuttal Testimony in the above-referenced matter. Specifically filed herewith are the Company's Rebuttal Testimonies, which include the following testimonies, along with supporting schedules and/or attachments:

1. Rebuttal Testimony of Ray L. Jones;
2. Rebuttal Testimony of Thomas J. Bourassa (Rate Base); and
3. Rebuttal Testimony of Thomas J. Bourassa (Cost of Capital).

RESPECTFULLY SUBMITTED this 18th day of February, 2014.

FENNEMORE CRAIG, P.C.

Arizona Corporation Commission

DOCKETED

FEB 18 2014

DOCKETED BY 

By _____


Jay L. Shapiro
2394 East Camelback Road, Suite 600
Phoenix, Arizona 85016
Attorneys for Lago Del Oro Water
Company

1 ORIGINAL and thirteen (13) copies
2 of the foregoing were delivered
3 this 18th day of February, 2014, to:

3 Docket Control
4 Arizona Corporation Commission
5 1200 W. Washington St.
6 Phoenix, AZ 85007

5 COPY of the foregoing was emailed/mailed
6 this 18th day of February, 2014, to:

7 Jane Rodda, ALJ
8 Hearing Division
9 Arizona Corporation Commission
400 West Congress
Tucson, AZ 85701

10 COPY of the foregoing was hand-delivered
11 this 18th day of February, 2014, to:

11 Robin Mitchell, Esq.
12 Legal Division
13 Arizona Corporation Commission
14 1200 W. Washington St.
Phoenix, AZ 85007

15 By: 
16 8907510.1/058113.0008

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1 FENNEMORE CRAIG
2 A Professional Corporation
3 Jay L. Shapiro (No. 014650)
4 2394 East Camelback Road, Suite 600
5 Phoenix, Arizona 85016
6 Telephone (602) 916-5000
7 Attorneys for Lago del Oro Water Company

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17 UTILITY SERVICE BASED THEREON.

DOCKET NO: W-01944A-13-0215

18 **REBUTTAL TESTIMONY OF**

19 **RAY L. JONES**

20 **February 18, 2014**
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1 **I. INTRODUCTION AND PURPOSE OF TESTIMONY**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Ray L. Jones, P.E. My business address is 25213 N. 49th Drive,
4 Phoenix, Arizona 85083.

5 **Q. ARE YOU THE SAME RAY L. JONES THAT FILED DIRECT**
6 **TESTIMONY IN THIS PROCEEDING?**

7 A. Yes.

8 **Q. HAS ANYTHING CHANGED WITH RESPECT TO YOUR**
9 **EMPLOYMENT OR RESPONSIBILITIES?**

10 A. No, I am still owner and principal of ARICOR Water Solutions LC, and I am
11 testifying on behalf of the Applicant Lago Del Oro Water Company ("LDO" or
12 "Company").

13 **Q. HAVE YOU REVIEWED THE DIRECT FILING MADE BY STAFF?**

14 A. Yes.

15 **Q. WHAT WILL YOU ADDRESS IN THIS REBUTTAL TESTIMONY?**

16 A. I will provide rebuttal testimony in response to the direct testimony of
17 Michael Thompson, P.E., including addressing LDO's compliance with Arizona
18 Department of Water Resources (ADWR) departmental requirements governing
19 water providers and/or community water systems and various recommendations
20 presented by Mr. Thompson.

21 **II. REBUTTAL TO DIRECT TESTIMONY OF MICHAEL THOMPSON, P.E.**

22 A. **Unregulated Contaminant Monitoring**

23 **Q. HAVE YOU REVIEWED MR. THOMPSON'S DISCUSSION OF**
24 **UNREGULATED CONTAMINANT MONITORING LDO IS REQUIRED**
25 **TO PERFORM IN 2014?**

26 A. Yes I have reviewed Mr. Thompson's presentation and am in agreement with his

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assessment of the requirements of the Unregulated Contaminant Monitoring Rule 3 (UCMR 3) promulgated by the Environmental Protection Agency (EPA).

Q. WHAT IS THE HISTORY AND PURPOSE OF UCMR 3?

A. The following information summarized from the EPA's UCMR 3 website explains the history and purpose of Unregulated Contaminant Monitoring Rules (UCMR), including UCMR 3.

The 1996 Safe Drinking Water Act (SDWA) amendments require that once every five years EPA issue a new list of no more than 30 unregulated contaminants to be monitored by public water systems. The first Unregulated Contaminant Monitoring Rule (UCMR 1) was published on September 17, 1999, the second (UCMR 2) was published on January 4, 2007 and the third (UCMR 3) was published on May 2, 2012. This monitoring provides a basis for future regulatory actions to protect public health.

The UCMR program was developed to support analysis and review of contaminant occurrence and to support the Administrator's determination of whether to regulate a contaminant in the interest of protecting public health.

UCMR benefits the environment and public health by providing EPA and other interested parties with scientifically valid data on the occurrence of contaminants in drinking water, permitting assessment of the population being exposed and the levels of exposure.

UCMR 3 builds on the established structure of UCMR 1 and 2, and makes minor changes to improve the rule design. Per the cyclical nature of UCMR, a new list of contaminants and analytical methods are defined.

1 Q. ARE THE COSTS TO BE INCURRED BY LDO UNDER THE UCMR 3
2 KNOWN AND MEASUREABLE?

3 A. Yes. As explained in Mr. Thompson's testimony, LDO's cost for the required
4 water testing is \$32,280 of which 92 percent is allocated to LDO with the
5 remaining 8 percent allocated to Ridgeview Utility Company.

6 Q. SHOULD THESE COSTS BE INCLUDED THE COMPANY'S REVENUE
7 REQUIREMENT IN THIS CASE?

8 A. Yes. The costs are known and measureable and attributable to an ongoing cyclical
9 regulatory requirement to sample unregulated contaminants for the purpose of
10 providing the EPA a basis for future regulatory actions to protect public health.

11 Q. HOW DOES LAGO PROPOSE TO RECOVER THE COSTS?

12 A. As further explained in the Rebuttal Testimony of Mr. Bourassa, LDO proposes to
13 normalize the costs over a five-year period consistent with the five-year UCMR
14 rule making cycle used by the EPA.¹

15 B. ADWR Compliance

16 Q. HAS LDO ADDRESSED THE ADWR COMPLIANCE MATTER NOTED
17 BY MR. THOMPSON?

18 A. Yes. The Company has submitted the Water System Plan required by ADWR and
19 ADWR has indicated that the Company is in compliance with respect to the Water
20 System Plan.

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25 ¹ Rebuttal Testimony of Thomas J. Bourassa – Rate Base, Income Statement and Rate
26 Design at 18.

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C. Best Management Practices

Q. DOES STAFF MAKE A RECOMMENDATION REGARDING BEST MANAGEMENT PRACTICES?

A. Yes, Staff recommends that the Company file at least seven (7) Best Management Practices (BMPs) (five (5) currently implemented BMPs plus two (2) additional BMPs) in the form of tariffs that substantially conform to the templates created by Staff and available on the Commission's website.

Q. DOES LDO SUPPORT STAFF'S RECOMMENDATION?

A. No. Staff's recommendation is duplicative and excessive, taking the Company beyond what is required by ADWR, the agency that regulates LDO's use of groundwater. As detailed in my direct testimony, LDO does not have a lost water problem and has a water conservation program as mandated by ADWR. LDO is enrolled as a regulated Tier II municipal provider in the ADWR Modified Non Per Capita Conservation Program (NPCCP). As a part of the NPCCP, LDO is required to have a public education program and to implement five (5) BMPs in its service area. LDO must file reports with ADWR on its water conservation efforts.

Q. IS THE COMPANY'S POSITION CONSISTENT WITH RECENT COMMISSION DECISIONS?

A. Yes, it is. In Decision No. 73573 for LDO's sister company, Pima Utility Company, The Commission found as follows:

Pima is located in the Phoenix Active Management Area (AMA). The state's groundwater protection laws are already in place and enforced by ADWR. We do not find duplicative regulation to be in the public interest. We agree with Pima and will not require the filing of BMPs.

1 More recently, in Decision No. 74294 dated January 29, 2014 for New River
2 Utility Company, the Commission again rejected Staff's BMP recommendation,
3 finding as follows:

4 New River is located in the Phoenix AMA. The state's
5 groundwater protection laws are already in place and
6 enforced by ADWR. We do not find duplicative regulation to
be in the public interest. We agree with New River and will
not require the filing of BMPs.

7 The Commission should do so again in this case.

8 **D. Water Sampling Schedule**

9 **Q. DOES STAFF MAKE A RECOMMENDATION REGARDING WATER**
10 **SAMPLING SCHEDULES?**

11 A. Yes. Staff recommends that LDO revise its Volatile Organic Compound (VOC)
12 and Radiochemical (RAD) sampling and testing schedules to conform to the
13 Arizona Department of Environmental Quality's (ADEQ) mandated schedule.

14 **Q. WHAT IS LDO RESPONSE TO THIS RECOMMENDATION?**

15 A. LDO is in agreement with Staff that its VOC and RAD sampling and testing should
16 conform to the schedule mandated by ADEQ. However, it is not necessary for
17 LDO to revise its VOC and RAD sampling and testing schedule because LDO
18 currently follows the ADEQ mandated schedule for all sampling including VOC
19 and RAD. LDO understands that it caused the confusion due to minor errors in the
20 sampling cost schedules provided in response to a Staff data request and apologizes
21 for the error.

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E. Other Matters

Q. ARE STAFF AND THE COMPANY IN AGREEMENT ON THE OTHER ISSUES AND RECOMMENDATIONS DISCUSSED IN MR. THOMPSON'S DIRECT TESTIMONY?

A. Yes. The Company is in agreement with Mr. Thompson's Conclusions Nos. 1, 2, 4, 5, 6, 7, 8, and 9 and Recommendations Nos. 1, 2 and 3.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

1 FENNEMORE CRAIG
A Professional Corporation
2 Jay L. Shapiro (No. 014650)
2394 East Camelback Road, Suite 600
3 Phoenix, Arizona 85016
Telephone (602) 916-5000
4 Attorneys for Lago del Oro Water Company
5
6

7 **BEFORE THE ARIZONA CORPORATION COMMISSION**

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DOCKET NO: W-01944A-13-0215

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16 **REBUTTAL TESTIMONY OF**
17 **THOMAS J. BOURASSA**
18 **RATE BASE, INCOME STATEMENT AND RATE DESIGN**

19 **February 18, 2014**
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1 **I. INTRODUCTION AND QUALIFICATION**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

3 A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive,
4 Phoenix, Arizona 85029.

5 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

6 A. I am testifying on behalf of the Lago Del Oro Water Company, (“LDO” or the
7 “Company”).

8 **Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THE
9 INSTANT CASE?**

10 A. Yes, my direct testimony was submitted in support of the initial application in this
11 docket. There were two volumes, one addressing rate base, income statement and
12 rate design, and the other addressing cost of capital.

13 **Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?**

14 A. I will provide rebuttal testimony in response to the direct filing by Staff.
15 More specifically, this first volume of my rebuttal testimony relates to rate base,
16 income statement and rate design for LDO. In a second, separate volume of my
17 rebuttal testimony, I will present an update to the Company’s requested cost of
18 capital as well as provide response to Staff on the cost of capital and rate of return
19 applied to the fair value rate base, and the determination of operating income.

20 **II. SUMMARY OF THE COMPANY’S REBUTTAL POSITION**

21 **Q. WHAT IS THE REVENUE INCREASE THE COMPANY IS PROPOSING
22 IN THIS REBUTTAL TESTIMONY?**

23 A. The Company proposes a total revenue requirement of \$3,030,491, which
24 constitutes an increase in revenues of \$1,148,253, or 61.00 percent over adjusted
25 test year revenues.

26

1 Q. HOW DOES THIS COMPARE WITH THE COMPANY'S DIRECT
2 FILING?

3 A. It is lower. In the direct filing, the Company requested a total revenue requirement
4 of \$3,075,271, which required an increase in revenues of \$1,193,033, or
5 63.38 percent.

6 Q. WHAT'S DIFFERENT?

7 A. In its rebuttal filing, LDO has adopted a number of rate base and revenue/expense
8 adjustments recommended by Staff, as well as proposed adjustments of its own.
9 The net result of these adjustments is that the Company's proposed operating
10 expenses have increased by \$51,368, from \$1,885,708 in the direct filing to
11 \$1,937,076. This includes a reduction of \$923,887 to rate base from the direct
12 filing of \$8,787,333 to \$7,363,846 due to a proposed change to accumulated
13 depreciation. I will explain this adjustment, which reflects a partial acceptance of
14 Staff's rate base adjustment #1 related the test year purchase of plant from an
15 affiliate to recognition and a corresponding change to accumulated deferred income
16 taxes.

17 In addition to the changes in revenue/expenses and rate base discussed
18 above, the Company's proposed return on rate base has increased from
19 8.65 percent to 8.79 percent. The Company proposed 8.79 percent reflects changes
20 in the proposed capital structure and proposed cost of debt which I discuss in my
21 rebuttal cost of capital testimony.

22 ...

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1 Q. WHAT ARE THE PROPOSED REVENUE REQUIREMENTS AND RATE
2 INCREASES FOR THE COMPANY AND STAFF AT THIS STAGE OF
3 THE PROCEEDING?

4 A. The proposed revenue requirements and proposed rate increases are as follows:

	<u>Revenue Requirement</u>	<u>Revenue Incr.</u>	<u>% Increase</u>
5 Company-Direct	\$3,075,271	\$1,193,033	63.38%
6 Staff	\$2,829,778	\$ 947,540	50.34%
7 Company-Rebuttal	\$3,030,491	\$1,148,253	61.00%

9
10 **III. RATE BASE**

11 Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE
12 BASE RECOMMENDATIONS?

13 A. Yes, the rate bases proposed by the Company and Staff are as follows:

	<u>OCRB</u>	<u>FVRB</u>
14 Company-Direct	\$ 8,787,333	\$ 8,787,333
15 Staff	\$ 7,342,962	\$ 7,342,962
16 Company Rebuttal	\$ 7,363,846	\$ 7,363,846

17
18 Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED
19 ORIGINAL COST RATE BASE?

20 A. Yes. The Company's rebuttal rate base adjustments OCRB are detailed on rebuttal
21 schedules B-2, pages 3 through 7. Rebuttal Schedule B-2, page 1 and 2,
22 summarize the Company's proposed adjustments and the rebuttal OCRB.

23 ...

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26

1 **A. Plant-in-Service (PIS)**

2 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**
3 **REBUTTAL ADJUSTMENTS TO PLANT-IN-SERVICE AND IDENTIFY**
4 **ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF?**

5 A. The Company is not proposing any adjustments to PIS.

6 **Q. PLEASE SUMMARIZE THE RECOMMENDED PIS BALANCES OF THE**
7 **PARTIES AND THE DIFFERENCES.**

8 A. The Company recommends a PIS balance of \$18,200,198.¹ Staff recommends a
9 PIS balance of \$17,063,612,² a difference of \$1,136,587 compared to the
10 Company's recommended balance.

11 **Q. WHAT IS THE REASON FOR THE DIFFERENCE?**

12 A. The Company sought to book the plant it recently purchased on its books at the
13 purchased cost.³ Since no entity has ever taken depreciation, LDO thought this
14 was appropriate. Staff disagrees, asserting that a portion of the useful lives of the
15 plant items have expired, and that this loss of useful life must be recognized.
16 I cannot disagree that the plant items have lost some of their useful life because
17 they have been in service. But Staff has failed to recognize the loss of useful life
18 for ratemaking.

19 **Q. PLEASE EXPLAIN.**

20 A. The difference of \$1,136,687 represents the accumulated depreciation ("A/D") on
21 the plant purchased that would have been recorded had the plant been booked by
22 LDO at the time it was placed into service rather than the time LDO had purchased

24 ¹ See Rebuttal Schedule B-2, page 1.

25 ² See Staff Direct Schedule MJR W-3.

26 ³ See Application (Financing), filed July 10, 2013 in Docket No. W-01944A-13-0242,
at 2-3.

1 the plant.⁴ But Staff inexplicably reduces the original cost of this plant by the past
2 A/D.⁵ If we are going to claim that there has been a loss of useful lives, then we
3 need to recognize that loss. This is why the Company recommends a \$1,136,587
4 increase to A/D.

5 Actually, the Staff recommendation does not conform to the National
6 Association of Regulatory Commissioners Uniform System of Accounts ("NARUC
7 USOA") Accounting Instruction No. 21. NARUC USOA Accounting Instruction
8 No. 21, subsection B(1) requires that purchased plant be recorded at its original
9 cost and in the appropriate utility plant in service accounts. Subsection B(2) of
10 Accounting Instruction No. 21 requires the accumulated depreciation applicable to
11 the original cost be recorded in the appropriate account for accumulated
12 depreciation. But Staff did not record the original cost of the plant purchased nor
13 the applicable A/D on the original cost. Again, Staff can't have it both ways.
14 Either we need to recognize the loss of useful lives in ratemaking, or we need to
15 ignore it entirely and record the purchase price as the original cost.

16 Notably, however, following the requirements of NARUC USOA,
17 the Company's recommended plant balance, accumulated depreciation balance and
18 rate base will be in exactly the same position as if the assets had been purchased at
19 the time they were place into service. Further, it ensures the depreciation expense
20 calculated on a going forward basis reflects the true amount of depreciation and
21 remaining useful life of the plant in service.

22 **Q. CAN YOU ILLUSTRATE THIS WITH AN EXAMPLE?**

23 **A.** Yes. Assume the original cost of plant is \$100,000 with a 10 year useful life (10
24 percent depreciation rate or \$10,000 per year depreciation expense). Also assume

25 ⁴ Direct Testimony of Mary J. Rimback ("Rimback Dt.") at 10.

26 ⁵ *Id.* See also Staff Direct Schedule RJM-W-4, Adjustment No. 1.

1 the plant was placed into service 5 years earlier, which would imply an
 2 accumulated depreciation balance of \$45,000 (\$10,000 x 4.5 years using half-year
 3 convention). The remaining useful life is 5 years and one would expect
 4 depreciation recovery of the remaining cost of \$55,000 (100,000 - \$45,000) would
 5 be over 5 years (10 years - 5 years). Under the Company's approach, in Year 1 the
 6 original cost of \$100,000 would be recorded in PIS and \$45,000 would be recorded
 7 in A/D. The Company would depreciate the plant a rate of 10 percent per year or
 8 \$10,000 (\$100,000 times 10 percent).

9 Table 1 below illustrates the depreciation recovery under the Company's
 10 approach.

11 Table 1

12 13 14 15 16 17 18	19 20 21 22 23 24 25 26	LDO Approach		A/D
		Original Cost	Depreciation	Balance
		\$ 100,000		\$ 45,000
1			\$ 10,000	\$ 55,000
2			\$ 10,000	\$ 65,000
3			\$ 10,000	\$ 75,000
4			\$ 10,000	\$ 85,000
5			\$ 10,000	\$ 95,000
6			\$ 5,000	\$ 100,000

As illustrated, the Company's approach ensures the depreciation recovery is over the remaining life.

Q. BUT WHY DOESN'T THE STAFF APPROACH PRODUCE THE SAME RESULTS?

A. Because the Staff approach effectively ignores the very loss of useful life Staff uses to reduce the purchase price. Staff says because it was "used" plant, we will reduce the purchase price. But for ratemaking, Staff treats the plant as if it were bought brand new at the reduced purchase price with a full remaining useful life of

1 new plant. As a result of this mismatch, the depreciation cost recovery period will
 2 exceed the true remaining life of the plant. I can illustrate using the previous
 3 example discusses on Page 5 of this testimony.

4 Under the Staff approach in Year 1, the Company would record \$55,000
 5 (\$100,000 - \$45,000) of PIS and \$0 of A/D. The Company would depreciate the
 6 plant a rate of 10 percent per year or \$5,500 (\$55,000 times 10 percent). Table 2
 7 below illustrates the depreciation recovery under the Staff approach:

8 Table 2

9 Staff Approach

10 <u>Year</u>	11 <u>Original Cost</u>	12 <u>Depreciation</u>	13 <u>A/D Balance</u>
	14 \$ 15 55,000		16 \$ -
17 1		18 \$ 2,750	19 \$ 2,750
20 2		21 \$ 5,500	22 \$ 8,250
23 3		24 \$ 5,500	25 \$ 13,750
26 4		\$ 5,500	\$ 19,250
		\$ 5,500	\$ 24,750
		\$ 5,500	\$ 30,250
		\$ 5,500	\$ 35,750
		\$ 5,500	\$ 41,250
		\$ 5,500	\$ 46,750
		\$ 5,500	\$ 52,250
		\$ 2,750	\$ 55,000

20 Under the Staff approach, the depreciation cost recovery is 5 years longer than the
 21 true remaining useful life of the plant.⁶ This approach violates the matching
 22 principle, which states that revenues and expenses should be recorded during the
 23 period in which the revenues are earned and the expenses are incurred. Under the

24 ⁶ Staff could have but did not use special depreciation rates for the purchased plant in
 25 order to recognize that some of its useful life has been used up. Using the example,
 26 to recognize the plant has only 5 years of remaining life, the depreciation rate would need
 to be increased from 10 percent (100 percent divided by 10) to 20 percent (100 percent
 divided by 5).

1 Staff approach, the annual depreciation expense does not reflect the loss of
 2 economic life over the true remaining useful life of the plant, and, extends cost
 3 recovery well beyond the useful life and well beyond the revenue generating
 4 capacity of the plant. The true annual cost from depreciation is not properly
 5 matched with the annual revenues earned, which is a violation of the matching
 6 principle.

7 **Q. DOES THE COMPANY RECOMMENDATION RESULT IN THE SAME**
 8 **NET BOOK VALUE OF PLANT AS RECOMMENDED BY STAFF?**

9 A. Yes. The table below illustrates this:

10 Table 3

	<u>LDO</u>	<u>Staff</u>
12 PIS as filed	\$18,200,198	\$18,200,198
13 PIS Adjustment	<u>\$ 0</u>	<u>\$(1,136,587)</u>
14 Adjusted PIS	\$18,200,198	\$17,063,812
15 A/D as filed	\$(8,840,798)	\$(8,840,798)
16 A/D Adjustment	<u>\$(1,136,587)</u>	<u>\$ 0</u>
17 Adjusted A/D	<u>\$(9,977,386)</u>	<u>\$(8,840,798)</u>
18 Net Book Value	\$8,222,812	\$8,222,812

19
 20 The Company's recommended \$1,136,587 increase to A/D rather than a reduction
 21 to PIS by the same amount results in the same rate base impact as the Staff
 22 recommendation, however it avoids the issues surrounding depreciation cost
 23 recovery discussed above.

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1 With regard to Item 2 in Table 4, Staff is recommending a reduction in A/D
2 on the plant purchased from an affiliate.⁷ The Company finds that no additional
3 depreciation adjustments need to be made for the purchase plant other than the
4 \$1,136,587 it recommends.

5 With regard to Item 3 in Table 4, Staff is recommending a reduction of
6 \$371,263 in A/D on plant Staff considers to be fully depreciated. The Company
7 disagrees with Staff's fully depreciated plant amounts as there are no fully
8 depreciated plant amounts under the Company's depreciation accounting except
9 those amounts that may have already been identified in its initial filing.⁸

10 **Q. PLEASE EXPLAIN.**

11 A. Staff uses a vintage group procedure⁹ when reconstructing the Company's A/D
12 balance.¹⁰ In contrast the Company uses a broad group procedure¹¹ and used a
13 broad group procedure in reconstructing its A/D balance. Both methods are
14 acceptable.¹² However, the broad group procedure is more commonly used.
15 Further, it is no less accurate than the vintage group procedure. Deloitte & Touche
16 states:

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21 ⁷ See Staff Direct Schedule RJM-W4, Adjustment No. 1.

22 ⁸ See LDO Direct Schedule C-2, page 2. There are no fully depreciated plant amounts.

23 ⁹ Under the vintage group procedure each vintage or placement year within a particular
depreciation category is considered to be a separate group.

24 ¹⁰ Ascertained from a review of the Staff depreciation work papers.

25 ¹¹ Under the broad group procedure all units within a particular depreciation category are
considered to be one group.

26 ¹² *Public Utility Depreciation Practices*, National Association of Regulatory
Commissioners, August 1996, p 62.

1 The group concept has been an integral part of utility
2 depreciation accounting practice for many years. Though the
3 concept is applicable to non-regulated entities, it is not often
4 applied. Non-regulated entities tend to depreciate individual
5 property units independently. Under the group concept, no
6 attempt is made to keep track of the depreciation reserve
7 applicable to individual items of property. This does not
8 imply loss of control, but rather is a practical approach for
9 utilities because they possess millions of items of property...

10 ...Some regulators suggest that the reserve be recorded by
11 vintage when equal life group rates are used.
12 These suggestions are the result of confusion caused by the
13 use of the "group" in both the utility accounting concept and
14 in the name given to rate calculation procedures. Under the
15 group concept, mortality characteristics apply to the total
16 group, not to the specific components of the group. Therefore
17 suggestions for recording the reserve by vintage are
18 inconsistent with the group concept. *This recording would be
19 precise, but not accurate. (emphasis added)*¹³

13 **Q. DO YOU AGREE THAT IF A VINTAGE GROUP PROCEDURE IS USED
14 THE REQUIRED ADJUSTMENT TO ACCUMULATED DEPRECIATION
15 IS A DECREASE OF \$371,263?**

16 **A.** No. While this adjustment, if adopted, would increase the Company's rate base by
17 \$371,263, the Staff recommended adjustment is simply not correct. Let me
18 explain.

19 When Staff applied its vintage group procedure and recorded retirements
20 following the instructions set forth in NARUC USOA,¹⁴ it created stranded
21 negative accumulated depreciation amounts that were not depreciated (amortized).
22 The failure to amortize and recover the negative accumulated depreciation amounts

24 ¹³ Deloitte & Touche LLP, et al. *Accounting for Public Utilities*. Lexis-Nexis (Matthew
25 Bender & Co.) 2009, Sec. 6.04 ("Deloitte & Touche").

26 ¹⁴ See NARUC USOA Accounting Instruction No. 27(B). Retirements are considered
fully retired regardless of their age. The capital cost is removed from PIS and the same
amount is removed from A/D.

1 results in an understatement of accumulated depreciation. It also illustrates one of
2 the pitfalls in the vintage group method. That said, when a provision is made to
3 amortize the negative A/D balances created by the Staff vintage group procedure,
4 the difference in Staff's computed A/D compared to the Company's A/D is
5 approximately \$99,000; about a 1 percent difference in the total A/D balance
6 between the Company and Staff.

7 **Q. SO, THE INCREASE TO ACCUMULATED DEPRECIATION SHOULD BE**
8 **ABOUT \$99,000 IF THE VINTAGE GROUP PROCEDURE IS USED TO**
9 **RECONSTRUCT THE A/D BALANCE?**

10 A. Yes. And, that would mean about a \$99,000 increase in the rate base.

11 **Q. IS STAFF RECOMMENDING THE COMPANY USE A VINTAGE GROUP**
12 **PROCEDURE FOR ITS DEPRECIATION ACCOUNTING?**

13 A. I did not find an explicit recommendation by Staff to use the vintage group
14 procedure for depreciation accounting. But, the implication is that the Company
15 use the vintage group procedure. Otherwise it will compute and record
16 depreciation expense on a going forward basis differently than how its depreciation
17 and A/D balance will be recomputed in the next rate case by Staff and potentially
18 the Company will need to make additional A/D adjustments in the future. This is
19 problematic because the Company will have to report the changes as prior period
20 adjustments in any future audited financial statements.

21 **Q. IS THE COMPANY OPPOSED TO USING THE VINTAGE GROUP**
22 **PROCEDURE?**

23 A. Yes. The Company opposes the use of the vintage group procedure for several
24 reasons. First, the broad group procedure is a widely used, acceptable, and
25 accurate means for computing depreciation and depreciation accounting. There is
26 no valid reason to change its depreciation accounting. Second, the broad group

1 procedure is the least administrative burdensome approach and requires the least
2 accounting records of annual additions and balances. Third, the use of the vintage
3 year group method introduces additional complexity into the depreciation
4 accounting without providing any corresponding improvement. This procedure
5 requires that each vintage group be analyzed separately to determine its average
6 life and would require separate depreciation rates for each group. Fourth, LDO is
7 part of the Robson family of companies which includes several utilities, most
8 notably Pima Utility Company, which recently completed a rate case in which Staff
9 supported the use of the broad group method.¹⁵ All of the Robson utilities use the
10 broad group procedure for depreciation accounting. There is no good reason to
11 make LDO different than the others. Fifth, the broad group procedure is more
12 consistent with the NARUC USOA regulatory accounting of retirements.¹⁶
13 The vintage group is prone to creating stranded negative accumulated depreciation
14 amounts that must be specially and specifically handled.

15 **C. Advances-in-Aid of Construction (AIAC)**

16 **Q. DO THE COMPANY AND STAFF AGREE ON THE AIAC BALANCE?**

17 A. Yes. Both are proposing AIAC balance of \$297,640.¹⁷

18 **D. Contributions-in-Aid of Construction (CIAC)**

19 **Q. WHAT ABOUT THE CIAC BALANCE?**

20 A. The Company is not proposing any adjustments to CIAC or accumulated
21 amortization (AA) and continues to propose CIAC and AA balances of \$852,693
22 and \$469,879, respectively. However, Staff is proposing CIAC and AA balances
23

24 ¹⁵ See Docket Nos. W-02199A-11-0329 and SW-02199A-11-330. Mr. Bourassa prepared
25 Pima Utility Company's reconstructed A/D balance using the broad group procedure.
There was no A/D depreciation issue in the Pima Utility Company rate case.

26 ¹⁶ See NARUC USOA Accounting Instruction No. 27(B).

¹⁷ See Staff Direct Schedule RJM-W3.

1 of \$753,535 and \$282,997, respectively.¹⁸ The Staff recommended CIAC balance
2 is \$99,158 less than the \$852,693 the Company recommends.

3 **Q. CAN YOU EXPLAIN THE DIFFERENCE IN THE CIAC BALANCES?**

4 A. Staff's adjustment to CIAC is based upon applying a vintage group procedure to
5 the CIAC accounting. Staff removes \$99,158 of 1995 amounts from CIAC for
6 CIAC Staff considers to be fully amortized.¹⁹ Staff also removes \$99,158 of AA
7 related to fully amortized CIAC and another \$87,874 from AA (for a total AA
8 adjustment of \$186,682) based upon revised composite depreciation rates flowing
9 from Staff's vintage group procedure used by Staff in reconstructing the A/D
10 balance.²⁰ The Company disagrees with these adjustments primarily because the
11 Company uses the broad group procedure for CIAC and AA, which is consistent
12 with its depreciation accounting, which also uses the broad group method. There is
13 no unamortized CIAC using the broad group procedure. Additionally, because the
14 Company found the Staff vintage year group procedure and re-constructed A/D
15 balance to be incorrect (e.g., stranded negative A/D balances which were not
16 amortized as discussed on Page 11), the Staff revised composite depreciation rates
17 used to amortize CIAC and to reconstruct the AA balance is also incorrect.

18 **E. Accumulated Deferred Income Taxes (ADIT)**

19 **Q. PLEASE DISCUSS THE COMPANY PROPOSED REBUTTAL**
20 **ADJUSTMENT TO DEFERRED INCOME TAX.**

21 A. In rebuttal B-2 adjustment 5, as shown on Schedule B-2, page 2, the Company
22 proposes to reduce accumulated deferred income taxes ("ADIT") by \$212,724
23 from \$279,359 to \$66,635. The Company's recommended ADIT balance reflects
24

25 ¹⁸ See Staff Direct Schedule RJM-W3.

26 ¹⁹ Rimback Dt. at 12.

²⁰ Rimback Dt. at 11-12.

1 the Company's proposed rebuttal PIS, A/D, AIAC, and CIAC balances as well as a
2 revised tax basis.

3 **Q. WHAT IS THE REASON FOR THE TAX BASIS CHANGE?**

4 A. The tax basis changed because the Company is recommending a reduction in the
5 net book value of the assets purchased from an affiliate. For tax purposes, the tax
6 basis now equals the net book value of the purchased assets of about \$2.7 million
7 rather than the full original cost as the Company proposed in direct of about \$3.9
8 million. The tax basis also changes because the Company's bonus depreciation for
9 2012 was based upon the full original cost of the purchased plant of \$3.9 million.
10 Since the full original cost of the plant was reduced by \$1,136,587, the basis
11 reduction reflected in the ADIT computation is reduced by 50 percent or \$568,294
12 (\$1,136,587). The details of the rebuttal computation of ADIT are shown on
13 Schedule B-2, page 7.0 and 7.1.

14 **Q. DOES THE COMPANY'S ADIT COMPUTATION REFLECT A CHANGE**
15 **TO THE STATE INCOME TAX RATE?**

16 A. Yes. The Arizona state income tax rate employed of 6.5 percent, is the same as
17 used in the Company's income tax computations discussed later in my testimony.

18 **Q. DID STAFF PROPOSE AN ADJUSTMENT TO THE ACCUMULATED**
19 **DEFERRED INCOME TAX BALANCE?**

20 A. Yes. Staff recommends an ADIT balance of \$399,487 based upon its
21 recommended PIS, A/D, AIAC, and CIAC balances.²¹ Like the Company, Staff
22 reduced the tax basis of plant for its \$1,136,587 reduction to the book value of
23 purchased plant.²² However, Staff failed to account for the change in the bonus
24 depreciation deduction of \$568,294 discussed above. The failure to account for the

25 ²¹ See Staff Direct Schedule RJM-W3.

26 ²² See Staff Direct work papers.

1 change in the bonus depreciation deduction results in an overstated ADIT balance
2 (and rate base).

3 **Q. WHAT SHOULD THE STAFF ADIT BALANCE BE?**

4 A. Based on the correction to the tax basis for the bonus depreciation change and
5 assuming the staff recommended balances of PIS, A/D, CIAC and AIAC,
6 the ADIT balance should be \$163,688, not \$399,487. Staff's rate base should be
7 higher by \$235,799 (\$399,487 - \$163,688) or \$7,578,761, not the \$7,342,962
8 shown on Staff Direct Schedule RJM-W3.

9 **Q. ARE THERE ANY OTHER RATE BASE ISSUES BETWEEN THE**
10 **PARTIES?**

11 A. No.

12 **IV. INCOME STATEMENT (C SCHEDULES)**

13 **A. Overview**

14 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**
15 **ADJUSTMENTS TO REVENUES AND EXPENSES FOR THE WATER**
16 **DIVISION AND IDENTIFY ANY ADJUSTMENTS YOU HAVE**
17 **ACCEPTED FROM STAFF?**

18 A. The Company rebuttal adjustments to revenues and/or expenses are detailed on
19 Rebuttal Schedule C-2, pages 1-8. The rebuttal income statement with adjustments
20 is summarized on Rebuttal Schedule C-1, page 1-2.

21 Rebuttal adjustment 1 reflects the annualized depreciation and amortization
22 expense based on the Company proposed PIS and CIAC balances. The Staff
23 recommended depreciation and amortization expense level is lower primarily
24 because Staff is proposing to adjust PIS for fully depreciated plant based on a
25 vintage group procedure as I discussed in Section III.A above.

1 Rebuttal adjustment number 2 reflects property tax expense at the Company
2 rebuttal proposed revenue level. The Company proposes a reduction to property
3 taxes based upon a lower assessment ratio of 19 percent compared to its direct
4 filing of 20 percent. The Company is proposing an assessment ratio of 19 percent
5 because it reflects the recently passed House Bill 2001 (“H.B 2001”), which enacts
6 a known and measurable change commencing in 2014.

7 **Q. DOES STAFF RECOMMEND AN ASSESSMENT RATIO OF**
8 **19 PERCENT?**

9 A. Yes.²³

10 **Q. DO THE COMPANY AND STAFF AGREE ON THE METHODOLOGY**
11 **FOR COMPUTING PROPERTY TAXES?**

12 A. Yes.²⁴

13 **Q. ARE THE PARTIES USING THE SAME PROPERTY TAX RATES?**

14 A. Yes.²⁵

15 **Q. THANK YOU. PLEASE CONTINUE.**

16 A. Rebuttal adjustment number 3 reduced Contractual Services – Testing expense by
17 \$548. This adjustment reflects the adoption of the Staff proposed adjustment to
18 Contractual Services - Testing.²⁶

19 Rebuttal adjustment number 4 increases Contractual Services – Accounting
20 for annual audit costs of \$8,000. The Company will be required to prepare annual
21 financial audits as a condition of its proposed new debt. Therefore, this is a
22 necessary expense and the amount is known and measurable.

23
24 ²³ See Staff Direct Schedule RJM-W13.

25 ²⁴ Rimback Dt. at 13.

26 ²⁵ See Rebuttal Schedule C-2, page 3 and Staff Direct Schedule MJR-W13.

²⁶ Rimback Dt. at 13.

1 Rebuttal adjustment number 5 increases Contractual Services – Testing for
2 water testing costs it expects to incur as a result of cyclically mandated EPA testing
3 requirements for 2014. As pointed out by Mr. Thompson of the ACC Engineering
4 Staff at page 22 of his direct testimony, the mandated water testing costs are
5 expected to total \$32,280. LDO’s allocated share of these costs is \$29,698 (32,280
6 x 92 percent). The Company proposes to recover this cost over 5 years, or \$5,940
7 annually. Staff does not propose a similar adjustment.

8 Rebuttal adjustment number 6 reflects interest synchronization of interest
9 expense based upon the Company proposed capital structure and cost of debt.

10 Adjustment 7 adjusts income taxes to reflect the Company proposed
11 adjusted test year revenues and expenses.

12 **Q. DOES THE COMPANY’S PROPOSED INCOME TAX EXPENSE**
13 **REFLECT THE REDUCTION IN THE STATE INCOME TAX RATE?**

14 A. Yes, the state income tax rate is reduced from 6.968 percent to 6.50 percent, which
15 is a reflection of the enacted H.B 2001’s reduction to the income tax rate for 2014.

16 **Q. DOES STAFF PROPOSE A 6.5 PERCENT STATE INCOME TAX RATE?**

17 A. Yes.²⁷

18 **B. Remaining Revenue and Expense Issues**

19 **Q. ARE THERE ANY REMAINING REVENUE AND/OR EXPENSE ISSUES**
20 **BETWEEN THE PARTIES?**

21 A. No.

22 ...
23 ...
24 ...

25
26 ²⁷ See Staff Direct Schedule DWC-W2.

1 **V. RATE DESIGN (H SCHEDULES)**

2 **Q. WHAT ARE THE COMPANY'S PROPOSED RATES FOR WATER**
3 **SERVICE?**

4 **A. The Company's proposed rates are:**

5 **MONTHLY SERVICE CHARGES (All Classes except Golf Course Irrigation and**
6 **Construction/Hydrant)**

7	5/8" x 3/4" Meter	\$ 14.88
8	3/4" Meter	\$ 14.88
9	1" Meter	\$ 24.80
10	1 1/2" Meter	\$ 49.60
11	2" Meter	\$ 79.36
12	3" Meter	\$158.72
13	4" Meter	\$248.00
14	5" Meter	Remove
15	6" Meter	\$496.00
16	8" Meter	\$793.60

17 **MONTHLY SERVICE CHARGES (Golf Course Irrigation and**
18 **Construction/Hydrant)**

19	Golf Course Irrigation	\$200.00
20	Construction/Hydrant	\$0.00
21	Gallons in minimum (all classes, except golf course irrigation)	0
22	Gallons in minimum (golf course irrigation)	0

23 ...

24 ...

25 ...

26

1	COMMODITY RATES		
2	5/8"X3/4" Meter – Res.	1 to 4,000	\$ 1.80
3		4,001 to 10,000	\$ 2.98
4		Over 10,000	\$ 4.16
5	5/8"X3/4" Meter – Com., Irr.*	1 to 10,000	\$ 2.98
6		Over 10,000	\$ 4.16
7	3/4" Meter – Res.	1 to 4,000	\$ 1.80
8		4,001 to 10,000	\$ 2.98
9		Over 10,000	\$ 4.16
10	3/4" Meter – Com., Irr.*	1 to 10,000	\$ 2.98
11		Over 10,000	\$ 4.16
12	1" Meter – Res., Com., Irr. *	1 to 17,000	\$ 2.98
13		Over 17,000	\$ 4.16
14	1 1/2" Meter – Res., Com., Irr.*	1 to 34,000	\$ 2.98
15		Over 34,000	\$ 4.16
16	2" Meter – Res., Com., Irr.*	1 to 54,000	\$ 2.98
17		Over 54,000	\$ 4.16
18	3" Meter – Res., Com., Irr.*	1 to 107,000	\$ 2.98
19		Over 107,000	\$ 4.16
20	4" Meter – Res., Com., Irr.*	1 to 167,000	\$ 2.98
21		Over 167,000	\$ 4.16
22	6" Meter – Res., Com., Irr.*	1 to 334,000	\$ 2.98
23		Over 334,000	\$ 4.16
24	8" Meter – Res., Com., Irr.*	1 to 534,000	\$ 2.98
25		Over 534,000	\$ 4.16

26 *Except Golf Course Irrigation

1	Golf Course Irrigation	All gallons	\$ 0.85
2	Construction/Hydrant	All gallons	\$ 4.16

3

4 **Q. WHAT WILL BE THE AVERAGE 5/8X3/4 INCH METERED CUSTOMER**
5 **AVERAGE MONTHLY BILL UNDER THE NEW RATES?**

6 A. As shown on Schedule H-2, page 1, the average monthly bill under proposed rates
7 for a 5/8x3/4 inch metered customer using an average 7,047 gallons is \$31.15 –
8 a \$9.66 increase over the present monthly bill or a 44.98 percent increase.

9 **Q. WHAT ARE THE DIFFERENCES IN RATE DESIGNS?**

10 A. While there are some differences in how the Company and the Staff rate designs
11 recover the revenues through the monthly minimums and commodity rates,
12 the differences are not major. Attached as **Rebuttal Exhibit TJB-RB1** are
13 schedules showing the revenue recovery from the monthly minimums and the
14 commodity rates under the Company and the Staff proposed rate designs.
15 The percentage recovery from the monthly minimums for the Company and Staff
16 are 40.76 percent and 41.28 percent, respectively. The percentage revenue
17 recovery at the highest commodity rate is lower than Staff's. The Company's rate
18 design recovers 13.23 percent at the highest commodity rate while the Staff rate
19 design recovers 13.18 percent.

20 A. **Miscellaneous Charges**

21 **Q. ARE STAFF AND THE COMPANY IN AGREEMENT ON THE**
22 **PROPOSED MISCELLANEOUS SERVICE CHARGES?**

23 A. Yes.

24

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1. Service Line and Meter Charges

Q. ARE STAFF AND THE COMPANY IN AGREEMENT ON THE PROPOSED SERVICE LINE AND METER INSTALLATION CHARGES?

A. Yes.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

EXHIBIT TJB-RB1

Lago Del Oro Water Company
 Metered Revenue Breakdown Summary
 Company Proposed Rates

Exhibit
 Page 1

		Present Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
5/8x3/4 Inch Residential		\$ 1,077,967	\$ 447,269	\$ 507,608	\$ 381,270	\$ 2,414,114
3/4 Inch Residential		20,713	8,471	11,629	17,307	58,120
1 Inch Residential		15,475	13,959	6,612	-	36,046
1 1/2 Inch Residential		1,190	1,652	156	-	2,999
2 Inch Residential		9,523	4,028	2,766	-	16,318
Subtotal		\$ 1,124,868	\$ 475,380	\$ 528,771	\$ 398,577	\$ 2,527,597
		37.33%	15.78%	17.55%	13.23%	83.89%
5/8x3/4 Inch Commercial		\$ -	\$ -	\$ -	\$ -	\$ -
3/4 Inch Commercial		6,964	4,298	593	-	11,855
1 Inch Commercial		4,762	3,673	44,663	-	53,097
1 1/2 Inch Commercial		7,142	5,647	100	-	12,890
2 Inch Commercial		20,951	26,694	34,566	-	82,210
3 Inch Commercial		3,809	4,349	4,379	-	12,538
6 Inch Commercial		23,808	18,367	30,410	-	72,585
Subtotal		\$ 67,436	\$ 63,029	\$ 114,710	\$ -	\$ 245,175
		2.24%	2.09%	3.81%	0.00%	8.14%
5/8x3/4 Inch Irrigation		\$ -	\$ -	\$ -	\$ -	\$ -
3/4 Inch Irrigation		1,607	1,433	753	-	3,793
1 Inch Irrigation		1,190	1,207	1,772	-	4,170
1 1/2 Inch Irrigation		595	194	-	-	789
2 Inch Irrigation		20,951	25,289	28,993	-	75,232
3 Inch Irrigation		3,809	4,006	513	-	8,329
4 Inch Irrigation		2,976	130	-	-	3,106
Golf Course Irrigation		4,800	137,432	-	-	142,232
Subtotal		\$ 35,929	\$ 169,690	\$ 32,031	\$ -	\$ 237,651
		1.19%	5.63%	1.06%	0.00%	7.89%
5/8x3/4 Inch Construction		-	2,611	-	-	2,611
		0.00%	0.09%	0.00%	0.00%	0.09%
TOTALS		\$ 1,228,234	\$ 710,710	\$ 675,512	\$ 398,577	\$ 3,013,034
Percent of Total		40.76%	23.59%	22.42%	13.23%	100.00%
Cummulative %		40.76%	64.35%	86.77%	100.00%	

Lago Del Oro Water Company
 Metered Revenue Breakdown Summary
 Staff Proposed Rates

Exhibit
 Page 2

		Present	Commodity	Commodity	Commodity	Total
		Monthly	Commodity	Commodity	Commodity	
		Mins	First Tier	Second Tier	Third Tier	
5/8x3/4 Inch	Residential	\$ 1,014,216	\$ 372,724	\$ 488,871	\$ 352,858	\$ 2,228,669
3/4 Inch	Residential	19,488	7,059	11,200	16,018	53,765
1 Inch	Residential	14,564	13,444	6,119	-	34,127
1 1/2 Inch	Residential	1,120	1,591	144	-	2,856
2 Inch	Residential	8,959	3,879	2,560	-	15,399
Subtotal		\$ 1,058,347	\$ 398,698	\$ 508,894	\$ 368,876	\$ 2,334,815
		37.80%	14.24%	18.18%	13.18%	83.39%
5/8x3/4 Inch	Commercial	\$ -	\$ -	\$ -	\$ -	\$ -
3/4 Inch	Commercial	6,552	4,140	549	-	11,240
1 Inch	Commercial	4,481	3,537	41,335	-	49,353
1 1/2 Inch	Commercial	6,719	5,439	92	-	12,250
2 Inch	Commercial	19,710	25,708	31,990	-	77,408
3 Inch	Commercial	3,584	4,189	4,053	-	11,826
6 Inch	Commercial	22,400	17,689	28,144	-	68,233
Subtotal		\$ 63,447	\$ 60,702	\$ 106,162	\$ -	\$ 230,311
		2.27%	2.17%	3.79%	0.00%	8.23%
5/8x3/4 Inch	Irrigation	\$ -	\$ -	\$ -	\$ -	\$ -
3/4 Inch	Irrigation	1,512	1,380	697	-	3,589
1 Inch	Irrigation	1,120	1,162	1,640	-	3,923
1 1/2 Inch	Irrigation	560	187	-	-	746
2 Inch	Irrigation	19,710	24,355	26,832	-	70,898
3 Inch	Irrigation	3,584	3,858	475	-	7,918
4 Inch	Irrigation	2,800	125	-	-	2,925
Golf Course	Irrigation	4,800	137,432	-	-	142,232
Subtotal		\$ 34,087	\$ 168,500	\$ 29,644	\$ -	\$ 232,231
		1.22%	6.02%	1.06%	0.00%	8.29%
5/8x3/4 Inch	Construction	-	2,417	-	-	2,417
		0.00%	0.09%	0.00%	0.00%	0.09%
TOTALS		\$ 1,155,881	\$ 630,317	\$ 644,700	\$ 368,876	\$ 2,799,774
Percent of Total		41.28%	22.51%	23.03%	13.18%	100.00%
Cummulative %		41.28%	63.80%	86.82%	100.00%	

RATE BASE SCHEDULES

Lago Del Oro Water Company
 Test Year Ended December 31, 2012
 Computation of Increase in Gross Revenue
 Requirements As Adjusted

Exhibit
 Rebuttal Schedule A-1
 Page 1
 Witness: Bourassa

Line
No.

1	Fair Value Rate Base	\$ 7,363,846
2		
3	Adjusted Operating Income	(54,838)
4		
5	Current Rate of Return	-0.74%
6		
7	Required Operating Income	\$ 647,208
8		
9	Required Rate of Return on Fair Value Rate Base	8.79%
10		
11	Operating Income Deficiency	\$ 702,046
12		
13	Gross Revenue Conversion Factor	1.6356
14		
15	Increase in Gross Revenue	
16	Requirement	\$ 1,148,253
17		
18	Adjusted Test Year Revenues	\$ 1,882,238
19	Increase in Gross Revenue Revenue Requirement	\$ 1,148,253
20	Proposed Revenue Requirement	\$ 3,030,491
21	% Increase	61.00%

23	Customer		Present	Proposed	Dollar	Percent
24	Classification		<u>Rates</u>	<u>Rates</u>	<u>Increase</u>	<u>Increase</u>
25	5/8x3/4 Inch Residential	\$	1,576,999	\$ 2,419,025	\$ 842,026	53.39%
26	3/4 Inch Residential		35,011	57,126	22,114	63.16%
27	1 Inch Residential		20,819	36,336	15,518	74.54%
28	1 1/2 Inch Residential		1,651	2,999	1,348	81.61%
29	2 Inch Residential		9,934	19,649	9,715	97.79%
30						
31	5/8x3/4 Inch Commercial	\$	-	\$ -	\$ -	0.00%
32	3/4 Inch Commercial		6,728	10,623	3,895	57.89%
33	1 Inch Commercial		25,016	54,114	29,098	116.32%
34	1 1/2 Inch Commercial		6,996	12,890	5,894	84.25%
35	2 Inch Commercial		37,067	75,211	38,144	102.91%
36	3 Inch Commercial		5,924	12,538	6,614	111.66%
37	6 Inch Commercial		30,305	72,585	42,279	139.51%
38						
39	5/8x3/4 Inch Irrigation	\$	-	\$ -	\$ -	0.00%
40	3/4 Inch Irrigation		2,052	3,517	1,465	71.38%
41	1 Inch Irrigation		1,370	2,559	1,189	86.79%
42	1 1/2 Inch Irrigation		410	789	379	92.51%
43	2 Inch Irrigation		37,490	75,232	37,743	100.67%
44	3 Inch Irrigation		4,044	8,329	4,285	105.98%
45	4 Inch Irrigation		1,047	3,106	2,059	196.71%
46	Golf Course Irrigation		59,823	142,232	82,409	137.75%
47						
48	5/8x3/4 Inch Construction	\$	1,750	\$ 2,611	861	49.21%
49					-	0.00%
50	Revenue Annualization	\$	386	\$ 1,563	1,177	305.15%
51	Subtotal	\$	1,864,821	\$ 3,013,034	\$ 1,148,212	61.57%
52						
53	Other Water Revenues	\$	17,117	\$ 17,117	\$ -	0.00%
54	Reconciling Amount		299	340	41	13.71%
55	Rounding				-	0.00%
56	Total of Water Revenues	\$	1,882,237	\$ 3,030,491	\$ 1,148,253	61.00%

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 59 SUPPORTING SCHEDULES:
 60 B-1
 61 C-1
 62 C-3
 63 H-1

Lago Del Oro Water Company
 Test Year Ended December 31, 2012
 Summary of Rate Base

Exhibit
 Rebuttal Schedule B-1
 Page 1
 Witness: Bourassa

Line No.	<u>Original Cost</u> <u>Rate base</u>	<u>Fair Value</u> <u>Rate Base</u>
1		
2	\$ 18,200,198	\$ 18,200,198
3	Less: Accumulated Depreciation	9,977,386
4		
5	Net Utility Plant in Service	\$ 8,222,812
6		
7	<u>Less:</u>	
8	Advances in Aid of Construction	297,640
9		
10	Contributions in Aid of Construction	852,693
11		
12	Accumulated Amortization of CIAC	(469,879)
13		
14	Customer Meter Deposits	111,854
15	Custmer Security Deposits	-
16	Accumulated Deferred Income Tax	66,658
17		
18		
19	<u>Plus:</u>	
20		
21	Deferred Regulatory Assets TCE Plume	-
22	Deferred Tax Assets	-
23	Allowance for Working Capital	-
24		
25		
26	Total Rate Base	\$ 7,363,846

41 SUPPORTING SCHEDULES:

- 42 B-2
- 43 B-3
- 44 B-5
- 45 E-1

46
 47
 48
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Lago Del Oro Water Company
 Test Year Ended December 31, 2012
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Rebuttal Schedule B-2
 Page 1
 Witness: Bourassa

Line No.		Adjusted at End of <u>Test Year</u>	Proforma <u>Adjustment</u>	Proposed Adjusted at end of <u>Test Year</u>
1	Gross Utility			
2	Plant in Service	\$ 18,200,198	-	\$ 18,200,198
3				
4	Less:			
5	Accumulated			
6	Depreciation	8,840,798	1,136,588	9,977,386
7				
8				
9	Net Utility Plant			
10	in Service	\$ 9,359,400		\$ 8,222,812
11				
12	Less:			
13	Advances in Aid of			
14	Construction	297,640	-	297,640
15				
16	Contributions in Aid of			
17	Construction - Gross	852,693	-	852,693
18				
19	Accumulated Amortization of CIAC	(469,879)	-	(469,879)
20				
21	Customer Meter Deposits	111,854	-	111,854
22	Custmer Security Deposits	-	-	-
23	Accumulated Deferred Income Tax	279,359	(212,701)	66,658
24				-
25				-
26				
27	Plus:			
28				
29	Deferred Regulatory Assets TCE Plume	-		-
30	Prepayments	-		-
31	Materials and Supplies	-		-
32	Working capital	-	-	-
33				-
34				
35	Total	<u>\$ 8,287,733</u>		<u>\$ 7,363,846</u>

46 SUPPORTING SCHEDULES:

47 B-2, pages 2

48 E-1

49

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51

RECAP SCHEDULES:

B-1

Lago Del Oro Water Company
 Test Year Ended December 31, 2012
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Rebuttal Schedule B-2
 Page 2
 Witness: Bourassa

Line No.	Adjusted at End of Test Year	1	Plant-in-Service	2	Accumulated Depreciation	3	CIAC	4	AIAC	5	ADIT	Proposed Adjusted at end of Test Year
1	Gross Utility Plant in Service	\$ 18,200,198	-									\$ 18,200,198
2	Less:											
3	Accumulated Depreciation	8,840,798		1,136,588								9,977,386
4	Net Utility Plant in Service	\$ 9,359,400	\$ -	\$ (1,136,588)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,222,812
5	Less:											
6	Advances in Aid of Construction	297,640										297,640
7	Contributions in Aid of Construction (CIAC)	852,693										852,693
8	Accumulated Amort of CIAC	(469,879)										(469,879)
9	Customer Meter Deposits	111,854										111,854
10	Customer Security Deposits	-										-
11	Accumulated Deferred Income Taxes	279,359								(212,701)		66,658
12	Plus:											
13	Deferred Regulatory Assets											
14	Prepayments											
15	Materials and Supplies											
16	Allowance for Cash Working Capital											
17	Total	\$ 8,287,733	\$ -	\$ (1,136,588)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 212,701		\$ 7,363,846

SUPPORTING SCHEDULES:
 B-2, pages 3-5
 E-1

RECAP SCHEDULES:
 B-1

Lago Del Oro Water Company
 Test Year Ended December 31, 2012
 Original Cost Rate Base Proforma Adjustments
 Adjustment Number 1

Exhibit
 Rebuttal Schedule B-2
 Page 3
 Witness: Bourassa

Line No.	Description	Plant-in-Service					Proposed Adjusted Original Cost
		A	B	C	D	E	
		Adjusted Original Cost	Intentionally Left Blank	Adjustments to Reconcile Plant to Reconstruction	Intentionally Left Blank	Intentionally Left Blank	
5	301	Organization Cost					
6	302	Franchise Cost					
8	303	Land and Land Rights	42,808				42,808
9	304	Structures and Improvements	359,681				359,681
10	305	Collecting and Impounding Res.					
11	306	Lake River and Other Intakes					
12	307	Wells and Springs					
13	308	Infiltration Galleries and Tunnels	2,164,423				2,164,423
14	309	Supply Mains					
15	310	Power Generation Equipment	187,864				187,864
16	311	Electric Pumping Equipment	3,585,660				3,585,660
17	320	Water Treatment Equipment					
18	320.1	Water Treatment Plant					
19	320.2	Chemical Solution Feeders					
20	330	Dist. Reservoirs & Standpipe	24,640				24,640
21	330.1	Storage tanks					
22	330.2	Pressure Tanks	1,758,175				1,758,175
23	331	Trans. and Dist. Mains	321,969				321,969
24	333	Services	6,083,805				6,083,805
25	334	Meters	1,888,741				1,888,741
26	335	Hydrants	504,321				504,321
27	336	Backflow Prevention Devices	718,857				718,857
28	339	Other Plant and Misc. Equip.					
29	340	Office Furniture and Fixtures	36,758				36,758
30	340.1	Computers and Software					
31	341	Transportation Equipment	89,569				89,569
32	342	Stores Equipment					
33	343	Tools and Work Equipment					
34	344	Laboratory Equipment					
35	345	Power Operated Equipment	55,787				55,787
36	346	Communications Equipment	351,219				351,219
37	347	Miscellaneous Equipment	26,122				26,122
38	348	Other Tangible Plant					
40		TOTALS	\$ 18,200,199	\$ -	\$ -	\$ -	\$ 18,200,199
41							
42		Adjusted Plant-in-Service per Direct					\$ 18,200,199
43							
44		Increase (decrease) in Plant-in-Service					\$ -
45							
46		Adjustment to Plant-in-Service					\$ -
47							
48		SUPPORTING SCHEDULES					
49		B-2 pages 3.1, 3.2 and 3.3					
50							

Lago Del Oro Water Company
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - A

Exhibit
Rebuttal Schedule B-2
Page 3.1
Witness: Bourassa

Line
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Lago Del Oro Water Company
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - B

Exhibit
Rebuttal Schedule B-2
Page 3.2
Witness: Bourassa

Line

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Lago Del Oro Water Company
 Test Year Ended December 31, 2012
 Original Cost Rate Base Proforma Adjustments
 Adjustment Number 1 - C

Exhibit
 Rebuttal Schedule B-2
 Page 3.3
 Witness: Bourassa

Line
 No.

		Adjusted	B-2	Rebuttal	Plant	Proposed
		Original		Adjusted	Per	Plant
		Cost	Adjustments	Cost	Reconstruction	Adjustment
1	<u>Reconciliation of Plant to Plant Reconstruction</u>					
2						
3						
4	Acct.					
5	No. Description					
6	301 Organization Cost	-	-	-	-	-
7	302 Franchise Cost	-	-	-	-	-
8	303 Land and Land Rights	42,608	-	42,608	42,608	-
9	304 Structures and Improvements	359,681	-	359,681	359,681	-
10	305 Collecting and Impounding Res.	-	-	-	-	-
11	306 Lake River and Other Intakes	-	-	-	-	-
12	307 Wells and Springs	2,164,423	-	2,164,423	2,164,423	-
13	308 Infiltration Galleries and Tunnels	-	-	-	-	-
14	309 Supply Mains	-	-	-	-	-
15	310 Power Generation Equipment	187,864	-	187,864	187,864	-
16	311 Electric Pumping Equipment	3,585,660	-	3,585,660	3,585,660	-
17	320 Water Treatment Equipment	-	-	-	-	-
18	320.1 Water Treatment Plant	-	-	-	-	-
19	320.2 Chemical Solution Feeders	24,640	-	24,640	24,640	-
20	330 Dist. Reservoirs & Standpipe	-	-	-	-	-
21	330.1 Storage tanks	1,758,175	-	1,758,175	1,758,175	-
22	330.2 Pressure Tanks	321,969	-	321,969	321,969	-
23	331 Trans. and Dist. Mains	6,083,805	-	6,083,805	6,083,805	-
24	333 Services	1,888,741	-	1,888,741	1,888,741	-
25	334 Meters	504,321	-	504,321	504,321	-
26	335 Hydrants	718,857	-	718,857	718,857	-
27	336 Backflow Prevention Devices	-	-	-	-	-
28	339 Other Plant and Misc. Equip.	-	-	-	-	-
29	340 Office Furniture and Fixtures	36,758	-	36,758	36,758	-
30	340.1 Computers and Software	-	-	-	-	-
31	341 Transportation Equipment	89,569	-	89,569	89,569	-
32	342 Stores Equipment	-	-	-	-	-
33	343 Tools and Work Equipment	-	-	-	-	-
34	344 Laboratory Equipment	-	-	-	-	-
35	345 Power Operated Equipment	55,787	-	55,787	55,787	-
36	346 Communications Equipment	351,219	-	351,219	351,219	-
37	347 Miscellaneous Equipment	26,122	-	26,122	26,122	-
38	348 Other Tangible Plant	-	-	-	-	-
39	Plant Held for Future Use	-	-	-	-	-
40	TOTALS	\$ 18,200,199	\$ -	\$ 18,200,199	\$ 18,200,199	\$ -

43 SUPPORTING SCHEDULE

44 B-2, pages 3.1 through 3.2

45 B-2, pages 3.4 through 3.29

Line No.	NARUC Account No.	Description	Per Decision No. 56464 - 04/28/1989				Current Books			
			(1) Book Plant at 4/30/1988	(2) Dec Adjustments	(3) Adjusted Plant at 4/30/1988	(4) Dec 65134 Accum Depr 4/30/1988	(5) Net Plant 4/30/1988	(6) Book Plant at 4/30/1988	(7) Allocated Accum Depr 4/30/1988	(8) Net Plant 4/30/1988
1	301	Organization Cost	275	-	275	-	-	-	-	
2	302	Frenchise Cost	-	-	-	-	-	-	-	
3	303	Land and Land Rights	3,200	-	3,200	-	-	-	3,200	
4	304	Structures & Improvements	-	-	-	-	-	-	-	
5	305	Collecting & Impounding Reservoirs	-	-	-	-	-	-	-	
6	306	Lake, River, Canal Intakes	-	-	-	-	-	-	-	
7	307	Wells & Springs	106,318	-	106,318	-	-	-	69,992	
8	308	Infiltration Galleries	-	-	-	-	-	-	-	
9	309	Raw Water Supply Mains	-	-	-	-	-	-	-	
10	310	Power Generation Equipment	-	-	-	-	-	-	-	
11	311	Pumping Equipment	220,818	-	220,818	-	-	-	135,667	
12	320	Water Treatment Equipment	-	-	-	-	-	-	-	
13	320.1	Water Treatment Plants	-	-	-	-	-	-	-	
14	320.2	Solution Chemical Feeders	-	-	-	-	-	-	-	
15	330	Distribution Reservoirs & Standpipes	116,880	-	116,880	-	-	-	-	
16	330.1	Storage Tanks	-	-	-	-	-	-	-	
17	330.2	Pressure Tanks	-	-	-	-	-	-	-	
18	331	Transmission & Distribution Mains	452,028	-	452,028	-	-	-	175,962	
19	333	Services	2,943	-	2,943	-	-	-	8,673	
20	334	Meters	25,151	-	25,151	-	-	-	270,792	
21	335	Hydrants	-	-	-	-	-	-	15,075	
22	336	Backflow Prevention Devices	-	-	-	-	-	-	4,040	
23	339	Other Plant & Misc Equipment	-	-	-	-	-	-	23,109	
24	340	Office Furniture & Equipment	1,240	-	1,240	-	-	-	-	
25	340.1	Computers & Software	-	-	-	-	-	-	-	
26	341	Transportation Equipment	-	-	-	-	-	-	913	
27	342	Stores Equipment	-	-	-	-	-	-	-	
28	343	Tools, Shop & Garage Equipment	-	-	-	-	-	-	-	
29	344	Laboratory Equipment	-	-	-	-	-	-	-	
30	345	Power Operated Equipment	-	-	-	-	-	-	962	
31	346	Communication Equipment	-	-	-	-	-	-	203	
32	347	Miscellaneous Equipment	-	-	-	-	-	-	-	
33	348	Other Tangible Plant	25,243	-	25,243	-	-	-	384	
34		TOTAL	954,074	-	954,074	186,065	767,969	954,075	166,085	787,990

¹ Book Plant at 4/20/1988 reallocated to expanded set of NARUC Plant accounts based on Current C/L.

Lago Del Oro Water Company
Test Year Ended December 31, 2012
Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	1988													
				Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Unbooked Plant Retirements	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant			
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	304	Structures & Improvements	5.00%	11,895	-	11,895	-	-	-	-	-	-	-	-	3,200	3,200	-
5	305	Collecting & Impounding Reservoirs	5.00%	-	-	-	-	-	-	-	-	-	-	-	11,895	11,895	-
6	306	Lake, River, Canal Intakes	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	308	Infiltration Galleries	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	685	-	685	-	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	320	Water Treatment Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	1,212	-	1,212	-	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	5.00%	77,666	-	77,666	-	-	-	-	-	-	-	-	-	-	-
19	333	Services	5.00%	32,530	-	32,530	-	-	-	-	-	-	-	-	-	-	-
20	334	Meters	5.00%	14,928	-	14,928	-	-	-	-	-	-	-	-	-	-	-
21	335	Hydrants	5.00%	32,327	-	32,327	-	-	-	-	-	-	-	-	-	-	-
22	338	Backflow Prevention Devices	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
27	342	Tools, Shop & Garage Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
28	343	Laboratory Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
29	344	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
30	345	Communication Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
31	346	Miscellaneous Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
32	347	Other Tangible Plant	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
33	348			-	-	-	-	-	-	-	-	-	-	-	-	-	-
34		TOTAL		171,243	-	171,243	-	-	-	-	-	-	-	-	1,125,318	200,635	924,683

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	1989										Net Plant			
				Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Unbooked Plant Retirements	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.				
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	304	Structures & Improvements	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	305	Collecting & Impounding Reservoirs	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	308	Infiltration Galleries	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	320	Water Treatment Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19	333	Services	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20	334	Meters	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
21	335	Hydrams	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
22	336	Backflow Prevention Devices	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
28	343	Tools Shop & Garage Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
30	345	Power Operation Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
34				-	-	-	-	-	-	-	-	-	-	-	-	-	-
35		TOTAL		57,061	57,061	57,061	-	-	-	-	-	-	-	-	-	-	-
36				-	-	-	-	-	-	-	-	-	-	-	-	-	-
37				-	-	-	-	-	-	-	-	-	-	-	-	-	-
38				-	-	-	-	-	-	-	-	-	-	-	-	-	-

57,061 57,061 57,532 1,182,379 258,167 924,212

Lago Del Oro Water Company
Test Year Ended December 31, 2012
Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Unbooked Plant Retirements	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	3,200	-	3,200
4	304	Structures & Improvements	5.00%	-	-	-	-	-	-	-	595	11,895	1,388	10,507
5	305	Collecting & Impounding Reservoirs	5.00%	-	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	5.00%	-	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	5.00%	-	-	-	-	-	-	-	4,240	84,804	26,119	58,685
8	308	Infiltration Galleries	5.00%	-	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	5.00%	-	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	5.00%	1,055	-	1,055	-	-	-	-	8,280	168,118	50,734	115,383
12	320	Water Treatment Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	5.00%	-	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	-	-	-	-	-	-	-	81	1,212	141	1,071
15	330	Distribution Reservoirs & Standpipes	5.00%	-	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	5.00%	7,071	-	7,071	-	-	-	-	10,972	222,870	65,876	157,094
17	330.2	Pressure Tanks	5.00%	-	-	-	-	-	-	-	525	10,508	3,237	7,272
18	331	Transmission & Distribution Mains	5.00%	-	-	-	-	-	-	-	21,701	434,028	112,235	321,794
19	333	Services	5.00%	-	-	-	-	-	-	-	7,203	151,570	33,498	118,071
20	334	Meters	5.00%	15,030	-	15,030	-	-	-	-	2,878	81,829	9,822	52,007
21	335	Hydrants	5.00%	16,524	-	16,524	-	-	-	-	3,252	85,034	12,749	52,285
22	338	Backflow Prevention Devices	5.00%	-	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	5.00%	-	-	-	-	-	-	-	360	8,878	1,716	7,162
24	340	Office Furniture & Equipment	5.00%	3,354	-	3,354	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	5.00%	-	-	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	5.00%	4,250	-	4,250	-	-	-	-	106	4,250	106	4,144
27	342	Stores Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	58	1,165	358	807
31	346	Communications Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	5.00%	-	-	-	-	-	-	-	110	2,200	677	1,523
33	348	Other Tangible Plant	5.00%	-	-	-	-	-	-	-	-	-	-	-
34		TOTAL		47,284	-	47,284	-	-	-	-	60,141	1,229,663	318,308	911,354

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	1991												
				Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Unbooked Plant Retirements	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant		
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
4	304	Structures & Improvements	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
5	305	Collecting & Impounding Reservoirs	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
8	308	Infiltration Galleries	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	5.00%	1,598	-	1,598	-	-	-	-	-	-	-	-	-	-
12	320	Water Treatment Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	5.00%	1,149	-	1,149	-	-	-	-	-	-	-	-	-	-
19	333	Services	5.00%	17,125	-	17,125	-	-	-	-	-	-	-	-	-	-
20	334	Meters	5.00%	9,268	-	9,268	-	-	-	-	-	-	-	-	-	-
21	335	Hydrants	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
22	336	Backflow Prevention Devices	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
34		TOTAL		28,140	-	28,140	-	-	-	-	-	-	-	-	-	-
35								62,052		1,259,803		380,380		878,443		

Lago Del Oro Water Company
Test Year Ended December 31, 2012
Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	1992		Adjusted Plant Additions	Plant Retirements	Unbooked Plant Retirements	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
				Plant Additions	Plant Retirements									
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	39,408	-	39,408	-	-	-	-	42,608	-	-	42,608
4	304	Structures & Improvements	5.00%	-	-	-	-	-	-	565	11,895	2,577	-	9,318
5	305	Collecting & Impounding Reservoirs	5.00%	-	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	5.00%	-	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	5.00%	64,993	-	64,993	-	-	-	5,665	149,797	36,224	-	113,573
8	308	Infiltration Galleries	5.00%	-	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	5.00%	-	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	-	-	-	-	-	-	8,366	167,716	67,466	-	100,250
11	311	Pumping Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-
12	320	Water Treatment Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	5.00%	-	-	-	-	-	-	61	1,212	263	-	949
14	320.2	Solution Chemical Feeders	5.00%	-	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	-	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	5.00%	-	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	5.00%	-	-	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	5.00%	370,040	-	370,040	-	-	-	11,149	222,970	88,173	-	134,797
19	333	Services	5.00%	76,350	-	76,350	-	-	-	525	10,509	4,288	-	6,221
20	334	Meters	5.00%	8,927	-	8,927	-	-	-	31,010	865,218	164,978	-	640,242
21	335	Hydrants	5.00%	83,000	-	83,000	-	-	-	10,394	247,045	51,548	-	195,496
22	336	Backflow Prevention Devices	5.00%	-	-	-	-	-	-	3,778	80,024	16,923	-	63,101
23	339	Other Plant & Misc Equipment	5.00%	-	-	-	-	-	-	5,327	148,034	21,327	-	126,707
24	340	Office Furniture & Equipment	5.00%	-	-	-	-	-	-	444	8,878	2,604	-	6,274
25	340.1	Computers & Software	5.00%	-	-	-	-	-	-	213	4,250	531	-	3,719
26	341	Transportation Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	-	-	-	-	-	-	56	1,165	475	-	690
31	346	Communication Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	5.00%	1,384	-	1,384	-	-	-	145	3,584	932	-	2,652
33	348	Other Tangible Plant	5.00%	-	-	-	-	-	-	-	-	-	-	-
34		TOTAL		646,102	-	646,102	-	-	-	77,948	1,904,905	458,308	-	1,446,597

Lago Del Oro Water Company
Test Year Ended December 31, 2012
Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Unbooked Plant Retirements	1993		Plant Balance	Depreciation (Calculated)	Salvage A/D Only	Accum. Deprec.	Net Plant
									Adjusted Plant Retirements	Adjusted Plant Retirements					
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	42,808	-	-	-	42,808
4	304	Structures & Improvements	5.00%	-	-	-	-	-	-	-	11,895	595	3,172	-	8,723
5	305	Collecting & Impounding Reservoirs	5.00%	-	-	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	5.00%	-	-	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	5.00%	-	-	-	-	-	-	-	149,797	7,490	43,714	-	106,083
8	308	Infiltration Galleries	5.00%	-	-	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	5.00%	-	-	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-
12	320	Water Treatment Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	5.00%	-	-	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	-	-	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	-	-	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	5.00%	-	-	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	5.00%	-	-	-	-	-	-	-	1,212	61	323	-	889
18	331	Transmission & Distribution Mains	5.00%	-	-	-	-	-	-	-	222,970	11,149	98,321	-	123,649
19	333	Services	5.00%	-	-	-	-	-	-	-	10,509	525	4,814	-	5,695
20	334	Meters	5.00%	25,276	-	25,276	-	-	-	-	805,218	40,261	205,236	-	599,982
21	335	Hydrants	5.00%	13,997	-	13,997	-	-	-	-	272,321	12,884	64,533	-	207,788
22	336	Backflow Prevention Devices	5.00%	2,695	-	2,695	-	-	-	-	94,021	4,351	21,274	-	72,747
23	339	Other Plant & Misc Equipment	5.00%	-	-	-	-	-	-	-	150,729	7,469	28,796	-	121,933
24	340	Office Furniture & Equipment	5.00%	-	-	-	-	-	-	-	8,878	444	3,048	-	5,830
25	340.1	Computers & Software	5.00%	-	-	-	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	5.00%	-	-	-	-	-	-	-	4,250	213	744	-	3,506
27	342	Stores Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	1,165	58	533	-	632
31	346	Communication Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	5.00%	1,394	-	1,394	-	-	-	-	4,978	214	1,146	-	3,632
33	348	Other Tangible Plant	5.00%	-	-	-	-	-	-	-	-	-	-	-	-
35		TOTAL		43,362	-	43,362	-	-	-	-	1,948,287	94,199	552,508	-	1,395,780

Lago Del Oro Water Company
 Test Year Ended December 31, 2012

Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

Exhibit
 Schedule B-2
 Page 3.11
 Witness: Jona/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	1994		Depreciation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
				Plant Additions	Adjusted Plant Retirements				
1	301	Organization Cost	0.00%	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-
4	304	Structures & Improvements	5.00%	-	-	-	42,608	-	42,608
5	305	Collecting & Impounding Reservoirs	5.00%	-	-	595	11,695	3,767	8,128
6	306	Lake, River, Canal Intakes	5.00%	-	-	-	-	-	-
7	307	Wells & Springs	5.00%	-	-	-	-	-	-
8	308	Infiltration Outfalls	5.00%	-	-	-	-	-	-
9	309	Raw Water Supply Mains	5.00%	-	-	7,426	147,247	48,590	98,657
10	310	Power Generation Equipment	5.00%	-	-	-	-	-	-
11	311	Pumping Equipment	5.00%	-	-	-	-	-	-
12	320	Water Treatment Equipment	5.00%	-	-	-	-	-	-
13	320.1	Water Treatment Plants	5.00%	96,869	36,655	9,891	227,930	49,068	178,842
14	320.2	Solution Chemical Feeders	5.00%	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	-	-	-	-	-	-
16	330.1	Storage Tanks	5.00%	-	-	61	1,212	384	828
17	330.2	Pressure Tanks	5.00%	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	5.00%	7,087	-	11,149	222,970	110,470	112,500
19	333	Services	5.00%	83,727	-	703	17,566	5,576	12,080
20	334	Meters	5.00%	30,258	-	42,354	888,845	247,590	641,355
21	335	Hydrants	5.00%	13,711	-	14,373	302,578	78,905	223,674
22	336	Backflow Prevention Devices	5.00%	-	-	5,044	107,732	26,318	81,414
23	339	Other Plant & Misc Equipment	5.00%	-	-	7,536	150,729	36,333	114,396
24	340	Office Furniture & Equipment	5.00%	-	-	-	-	-	-
25	340.1	Computers & Software	5.00%	-	-	-	-	-	-
26	341	Stores Equipment	5.00%	16,114	-	444	8,878	3,492	5,386
27	342	Tools, Shop & Garage Equipment	5.00%	-	-	615	20,364	1,359	19,005
28	343	Laboratory Equipment	5.00%	-	-	-	-	-	-
29	344	Power Operated Equipment	5.00%	-	-	-	-	-	-
30	345	Communication Equipment	5.00%	42,771	-	-	-	-	-
31	346	Miscellaneous Equipment	5.00%	-	-	1,128	43,936	1,861	42,275
32	347	Other Tangible Plant	5.00%	7,856	-	445	12,636	1,591	11,245
33	348		5.00%	-	-	-	-	-	-
34				-	-	-	-	-	-
35				-	-	-	-	-	-
36				-	-	-	-	-	-
37				-	-	-	-	-	-
38				-	-	-	-	-	-
TOTAL				288,396	298,396	101,763	2,207,457	615,064	1,592,393

Lago Del Oro Water Company
 Test Year Ended December 31, 2012
 Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

Exhibit
 Schedule B-2
 Page 3.15
 Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	1998										Net Plant		
				Plant Additions	Plant Adjustments	Adjusted Additions	Plant Retirements	Unbooked Plant Retirements	Adjusted Plant Retirements	Salvage A/D/Ony	Depreciation (Calculated)	Plant Balance	Accum. Deprac.			
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
4	304	Structures & Improvements	5.00%	47,933	-	47,933	-	-	228	-	-	-	-	42,608	-	42,608
5	305	Collecting & Impounding Reservoirs	5.00%	-	-	-	-	-	-	-	-	-	-	61,661	7,471	54,190
6	306	Lake, River, Canal Intakes	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	5.00%	1,046,186	-	1,046,186	-	-	3,662	-	-	-	-	1,208,309	98,388	1,109,921
8	308	Infiltration Galleries	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	5.00%	1,739,780	-	1,739,780	-	-	24,558	-	-	-	-	1,985,057	3,931	27,518
12	320	Water Treatment Equipment	5.00%	500,188	-	500,188	-	-	-	-	-	-	-	500,188	18,757	1,879,953
13	320.1	Water Treatment Plants	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	1,501	-	1,501	-	-	1,212	-	-	-	-	1,501	(579)	2,080
15	330	Distribution Reservoirs & Standpipes	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	5.00%	772,936	-	772,936	-	-	-	-	-	-	-	987,801	174,529	823,272
17	330.2	Pressure Tanks	5.00%	126,048	-	126,048	-	-	7,731	-	-	-	-	152,023	3,293	148,729
18	331	Transmission & Distribution Mains	5.00%	987,078	-	987,078	-	-	-	-	-	-	-	2,116,439	478,540	1,639,899
19	333	Services	5.00%	141,700	-	141,700	-	-	-	-	-	-	-	207,800	148,609	337,839
20	334	Meters	5.00%	25,384	-	25,384	-	-	-	-	-	-	-	488,447	148,609	135,460
21	335	Hydrants	5.00%	102,750	-	102,750	-	-	-	-	-	-	-	190,390	54,931	135,460
22	336	Backflow Prevention Devices	5.00%	-	-	-	-	-	-	-	-	-	-	256,892	69,405	187,587
23	338	Other Plant & Misc Equipment	5.00%	5,597	-	5,597	-	-	-	-	-	-	-	11,918	2,659	9,260
24	340	Office Furniture & Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	5.00%	21,440	-	21,440	-	-	-	-	-	-	-	50,208	(20,767)	70,976
26	341	Transportation Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	5.00%	1,956	-	1,956	-	-	-	-	-	-	-	43,513	9,286	34,225
32	347	Miscellaneous Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	207,593	15,472	192,121
33	348	Other Tangible Plant	5.00%	-	-	-	-	-	-	-	-	-	-	16,341	2,380	13,962
34				-	-	-	-	-	-	-	-	-	-	-	-	-
35		TOTAL		5,522,437	-	5,522,437	29,675	37,391	67,068	-	286,360	8,372,438	1,181,410	7,181,028		

Lago Del Oro Water Company
 Test Year Ended December 31, 2012
 Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

Exhibit
 Schedule B-2
 Page 3.16
 Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	1989		Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprac.	Net Plant
				Plant Additions	Adjusted Plant Retirements					
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	42,608	-	42,608
4	304	Structures & Improvements	5.00%	7,094	-	-	3,260	68,755	10,731	58,023
5	305	Collecting & Impounding Reservoirs	5.00%	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	5.00%	-	-	-	-	-	-	-
7	307	Wells & Springs	5.00%	-	-	-	-	1,208,309	158,803	1,049,506
8	308	Infiltration Galleries	5.00%	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	5.00%	-	-	-	-	31,449	5,504	25,945
10	310	Power Generation Equipment	5.00%	-	-	-	-	2,046,921	206,040	1,840,881
11	311	Pumping Equipment	5.00%	61,977	-	-	25,009	500,188	43,766	456,421
12	320	Water Treatment Equipment	5.00%	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	5.00%	-	-	-	-	2,117	(488)	2,605
14	320.2	Solution Chemical Feeders	5.00%	616	-	-	90	-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	-	-	-	-	-	-	-
16	330.1	Storage Tanks	5.00%	-	-	-	-	897,801	224,419	773,382
17	330.2	Pressure Tanks	5.00%	-	-	-	-	152,023	10,894	141,128
18	331	Transmission & Distribution Mains	5.00%	11,019	-	-	7,601	2,129,458	564,737	1,544,720
19	333	Services	5.00%	6,400	-	-	24,482	492,847	173,091	319,756
20	334	Meters	5.00%	37,988	-	-	10,469	228,388	65,400	162,988
21	335	Hydrants	5.00%	-	-	-	-	256,992	82,255	174,737
22	336	Backflow Prevention Devices	5.00%	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	5.00%	-	-	-	-	596	3,254	8,664
24	340	Office Furniture & Equipment	5.00%	-	-	-	-	-	-	-
25	340.1	Computers & Software	5.00%	-	-	-	-	2,568	(18,200)	70,692
26	341	Transportation Equipment	5.00%	2,283	-	-	-	-	-	-
27	342	Stores Equipment	5.00%	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	-	-	-	-	-	-	-
29	344	Laboratory Equipment	5.00%	-	-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	-	-	-	-	2,176	11,464	32,049
31	346	Communication Equipment	5.00%	11,575	-	-	-	219,168	26,141	193,027
32	347	Miscellaneous Equipment	5.00%	3,147	-	-	-	896	3,275	16,213
33	348	Other Tangible Plant	5.00%	-	-	-	-	-	-	-
34		TOTAL		142,109	-	-	419,781	8,504,334	1,591,088	6,913,346
35				-	10,113	-	-	-	-	-
36				-	-	-	-	-	-	-
37				-	-	-	-	-	-	-
38				-	-	-	-	-	-	-

Line No.	MARUC Account No.	Description	Allowed Deprec. Rate	2001										Net Plant		
				Plant Additions	Plant Adjustments	Adjusted Additions	Plant Retirements	Unbooked Plant Retirements	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.			
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
4	304	Structures & Improvements	5.00%	74,199	-	74,199	-	-	-	-	-	-	-	42,808	19,462	42,808
5	305	Collecting & Impounding Reservoirs	5.00%	-	-	-	-	-	-	-	-	-	-	142,954	-	142,954
6	306	Lake, River, Canal Intakes	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
8	308	Infiltration Galleries	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
9	309	Rew Water Supply Mains	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	135,000	-	135,000	-	-	-	-	-	-	-	166,449	12,023	154,425
11	311	Pumping Equipment	5.00%	785,764	-	785,764	-	50,419	50,419	-	-	-	-	2,884,536	301,368	2,583,168
12	320	Water Treatment Equipment	5.00%	7,887	-	7,887	-	-	-	-	-	-	-	625,070	100,325	524,744
13	320.1	Water Treatment Plants	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	-	-	-	-	-	-	-	-	-	-	3,697	(158)	3,855
16	330.1	Storage Tanks	5.00%	190,000	-	190,000	-	-	-	-	-	-	-	1,187,801	328,949	858,852
17	330.2	Pressure Tanks	5.00%	37,264	-	37,264	-	-	-	-	-	-	-	231,151	30,168	200,983
18	331	Transmission & Distribution Mains	5.00%	370,594	-	370,594	-	-	-	-	-	-	-	3,105,259	852,339	2,252,921
19	333	Services	5.00%	216,381	-	216,381	-	-	-	-	-	-	-	877,348	240,394	636,954
20	334	Meters	5.00%	21,182	-	21,182	-	-	-	-	-	-	-	13,074	272,079	90,456
21	335	Hydrants	5.00%	41,350	-	41,350	-	-	-	-	-	-	-	20,920	439,082	118,543
22	336	Backflow Prevention Devices	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	5.00%	12,926	-	12,926	-	5,702	5,702	-	-	-	-	820	20,005	(1,630)
24	340	Office Furniture & Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	5.00%	5,408	-	5,408	-	-	-	-	-	-	-	63,584	(23,101)	86,685
26	341	Transportation Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	43,513	15,815	27,698
31	346	Communication Equipment	5.00%	5,229	-	5,229	-	-	-	-	-	-	-	225,336	48,259	177,077
32	347	Miscellaneous Equipment	5.00%	3,693	-	3,693	-	-	-	-	-	-	-	1,147	5,437	19,345
33	348	Other Tangible Plant	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
34		TOTAL		1,906,688	-	1,906,688	11,275	56,121	67,396	-	-	-	552,061	12,003,469	2,452,277	9,551,192

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2004										Net Plant		
				Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Unbooked Plant Retirements	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.			
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
4	304	Structures & Improvements	5.00%	17,805	-	17,805	-	-	-	-	-	-	42,808	-	-	42,808
5	305	Collecting & Impounding Reservoirs	5.00%	-	-	-	-	-	-	-	-	-	177,051	43,137	-	133,914
6	306	Lake, River, Canal Intakes	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
8	308	Infiltration Galleries	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
9	308	Raw Water Supply Mains	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
12	320	Water Treatment Equipment	5.00%	163,427	-	163,427	11,819	166,408	178,227	-	-	-	166,449	36,991	129,458	2,475,405
13	320.1	Water Treatment Plants	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	4,778	-	4,778	-	-	-	-	-	-	8,475	516	7,959	-
16	330.1	Storage Tanks	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	5.00%	836	-	836	-	-	-	-	-	-	1,188,637	507,140	681,497	-
18	331	Transmission & Distribution Mains	5.00%	1,155	-	1,155	2,550	-	2,550	-	-	-	11,524	229,776	81,125	168,651
19	333	Services	5.00%	91,568	-	91,568	-	-	-	-	-	-	3,795,769	1,390,422	2,405,347	-
20	334	Meters	5.00%	91,824	-	91,824	-	-	-	-	-	-	58,182	1,209,557	399,373	810,184
21	335	Hydrants	5.00%	41,042	-	41,042	-	-	-	-	-	-	18,612	392,762	140,025	252,737
22	336	Backflow Prevention Devices	5.00%	-	-	-	-	-	-	-	-	-	25,008	500,162	182,578	307,583
23	339	Other Plant & Misc Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	5.00%	2,532	-	2,532	-	-	-	-	-	-	1,273	28,730	1,959	24,771
25	340.1	Computers & Software	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	5.00%	27,217	-	27,217	-	-	-	-	-	-	4,289	89,386	(19,157)	118,543
27	342	Tools	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	5.00%	1,357	-	1,357	-	-	-	-	-	-	2,687	53,748	23,622	30,127
32	347	Miscellaneous Equipment	5.00%	-	-	-	-	-	-	-	-	-	11,649	233,668	62,857	150,811
33	346	Other Tangible Plant	5.00%	-	-	-	-	-	-	-	-	-	940	14,874	(1,865)	16,740
34																
35		TOTAL		443,542	-	443,542	18,837	174,286	163,103	-	-	-	663,396	13,435,806	4,138,902	9,296,904

Lago Del Oro Water Company
Test Year Ended December 31, 2012
Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

Line No.	MARUC Account No.	Description	Allowed Deprec. Rate	2005										Net Plant		
				Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Unbooked Plant Retirements	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.			
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
4	304	Structures & Improvements	5.00%	31,960	-	31,960	-	-	-	-	-	-	-	42,608	-	42,608
5	305	Collecting & Impounding Reservoirs	5.00%	-	-	-	-	-	-	-	-	-	-	209,011	52,789	156,222
6	306	Lake, River, Canal Intakes	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
8	308	Infiltration Galleries	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	5.00%	34,628	-	34,628	-	-	-	-	-	-	-	260,702	225,339	389,730
12	320	Water Treatment Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	5.00%	126,917	-	126,917	-	-	-	-	-	-	-	1,188,637	566,572	622,065
19	333	Services	5.00%	55,939	-	55,939	-	-	-	-	-	-	-	229,776	72,614	157,162
20	334	Meters	5.00%	52,551	-	52,551	-	-	-	-	-	-	-	3,922,666	1,563,363	2,338,303
21	335	Hydrants	5.00%	-	-	-	-	-	-	-	-	-	-	1,265,496	461,249	804,247
22	336	Backflow Prevention Devices	5.00%	-	-	-	-	-	-	-	-	-	-	445,313	160,977	284,337
23	339	Other Plant & Misc Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	500,162	217,566	282,575
24	340	Office Furniture & Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	5.00%	1,940	-	1,940	-	-	-	-	-	-	-	53,748	26,309	27,440
32	347	Miscellaneous Equipment	5.00%	4,437	-	4,437	-	-	-	-	-	-	-	235,608	94,569	141,019
33	348	Other Tangible Plant	5.00%	-	-	-	-	-	-	-	-	-	-	18,604	(1,736)	20,339
34		TOTAL		308,372	-	308,372	460,000	8,118	468,118	-	665,641	13,275,060	4,335,425	8,939,635	-	8,939,635

Line No.	MARUC Account No.	Description	Allowed Deprec. Rate	Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Unbooked Plant Retirements	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	42,008	-	42,008
4	304	Structures & Improvements	5.00%	14,275	-	14,275	-	-	-	-	10,807	223,286	84,497	136,789
5	305	Collecting & Impounding Reservoirs	5.00%	-	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	5.00%	-	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	5.00%	-	-	-	-	-	-	-	-	83,384	891,873	776,009
8	308	Infiltration Galleries	5.00%	-	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	5.00%	-	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	-	-	-	-	-	-	-	4,322	86,449	(23,720)	110,168
11	311	Pumping Equipment	5.00%	-	-	-	-	-	-	-	134,412	2,694,173	680,628	2,033,546
12	320	Water Treatment Equipment	5.00%	22,544	-	22,544	-	10,684	-	-	-	-	-	-
13	320.1	Water Treatment Plants	5.00%	-	-	-	-	-	-	-	-	-	-	-
14	320.2	Water Treatment Plants	5.00%	-	-	-	-	-	-	-	424	8,475	2,211	6,264
15	330	Solution Chemical Feeders	5.00%	-	-	-	-	-	-	-	-	-	-	-
16	330.1	Distribution Reservoirs & Standpipes	5.00%	-	-	-	-	-	-	-	-	-	-	-
17	330.2	Storage Tanks	5.00%	72,390	-	72,390	-	-	-	-	61,242	1,261,027	746,677	514,350
18	331	Pressure Tanks	5.00%	-	-	-	-	-	-	-	11,489	229,776	107,081	122,696
19	333	Transmission & Distribution Mains	5.00%	80,393	-	80,393	-	-	-	-	212,734	4,294,969	2,208,821	2,086,048
20	334	Services	5.00%	52,633	-	52,633	-	-	-	-	71,766	1,461,628	668,239	793,389
21	335	Meters	5.00%	-	-	-	-	-	-	-	23,976	478,514	231,428	248,086
22	336	Hydrants	5.00%	-	-	-	-	-	-	-	26,445	528,883	298,202	232,681
23	338	Backflow Prevention Devices	5.00%	-	-	-	-	-	-	-	-	-	-	-
24	340	Other Plant & Misc Equipment	5.00%	3,600	-	3,600	-	3,680	-	-	1,493	29,732	3,683	26,049
25	340.1	Office Furniture & Equipment	5.00%	-	-	-	-	-	-	-	3,728	74,588	(29,907)	104,495
26	341	Computers & Software	5.00%	-	-	-	-	-	-	-	-	-	-	-
27	342	Transportation Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-
28	343	Stores Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-
29	344	Tools, Shop & Garage Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-
30	345	Laboratory Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-
31	346	Power Operated Equipment	5.00%	2,254	-	2,254	-	-	-	-	2,650	53,006	33,536	19,470
32	347	Communication Equipment	5.00%	12,324	-	12,324	-	-	-	-	11,637	237,962	129,968	107,875
33	348	Miscellaneous Equipment	5.00%	-	-	-	-	-	-	-	1,080	27,763	(2,196)	29,960
34	348	Other Tangible Plant	5.00%	-	-	-	-	-	-	-	-	-	-	-
35		TOTAL		260,414	-	260,414	-	14,543	-	14,543	661,799	13,401,531	6,009,038	7,362,493

Accumulated Depreciation

Line No.	Acct. No.	Description	A		B		C		D	E	Proposed Adjusted Accum. Depr.
			Adjusted Accum. Depr.	Purchased Plant A/D Adj.	Intentionally Left Blank	Intentionally Left Blank	Adjustments to Reconcile A/D to Reconstruction	Intentionally Left Blank			
5	301	Organization Cost	-	-	-	-	-	-	-	-	-
6	302	Franchise Cost	-	-	-	-	-	-	-	-	-
7	303	Land and Land Rights	-	-	-	-	-	-	-	-	-
8	304	Structures and Improvements	123,773	16,508	-	-	-	-	-	-	140,281
9	305	Collecting and Impounding Res.	-	-	-	-	-	-	-	-	-
10	306	Lake River and Other Intakes	-	-	-	-	-	-	-	-	-
11	307	Wells and Springs	1,237,863	74,481	-	-	-	-	-	-	1,312,344
12	308	Infiltration Galleries and Tunnels	-	-	-	-	-	-	-	-	-
13	309	Supply Mains	-	-	-	-	-	-	-	-	-
14	310	Power Generation Equipment	9,102	9,372	-	-	-	-	-	-	18,474
15	311	Electric Pumping Equipment	1,268,371	82,196	-	-	-	-	-	-	1,350,567
16	312	Water Treatment Plant	-	-	-	-	-	-	-	-	-
17	320.1	Water Treatment Plant	-	-	-	-	-	-	-	-	-
18	320.2	Chemical Solution Feeders	1,726	-	-	-	-	-	-	-	1,726
19	330	Dist. Reservoirs & Standpipe	-	-	-	-	-	-	-	-	-
20	330.1	Storage tanks	999,447	48,478	-	-	-	-	-	-	1,047,925
21	330.2	Pressure Tanks	153,633	13,387	-	-	-	-	-	-	167,020
22	331	Trans. and Dist. Mains	3,112,967	747,934	-	-	-	-	-	-	3,860,901
23	333	Services	984,751	79,977	-	-	-	-	-	-	1,064,728
24	334	Meters	329,187	-	-	-	-	-	-	-	329,187
25	335	Hydrants	406,730	60,726	-	-	-	-	-	-	467,456
26	336	Backflow Prevention Devices	-	-	-	-	-	-	-	-	-
27	339	Other Plant and Misc. Equip.	9,860	-	-	-	-	-	-	-	9,860
28	340	Office Furniture and Fixtures	-	-	-	-	-	-	-	-	-
29	340.1	Computers and Software	(23,159)	-	-	-	-	-	-	-	(23,159)
30	341	Transportation Equipment	-	-	-	-	-	-	-	-	-
31	342	Stores Equipment	-	-	-	-	-	-	-	-	-
32	343	Tools and Work Equipment	-	-	-	-	-	-	-	-	-
33	344	Laboratory Equipment	-	-	-	-	-	-	-	-	-
34	345	Power Operated Equipment	44,485	-	-	-	-	-	-	-	44,485
35	346	Communications Equipment	183,184	3,529	-	-	-	-	-	-	186,713
36	347	Miscellaneous Equipment	(1,121)	0	-	-	-	-	-	-	(1,121)
37	348	Other Tangible Plant	-	-	-	-	-	-	-	-	-
38	348	Loss on Plant Disposal	-	-	-	-	-	-	-	-	-
39		TOTALS	\$ 8,840,798	\$ 1,136,588	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,977,386
40											
41											
42		Adjusted Accumulated Depreciation per Direct									\$ 8,840,798
43											
44		Increase (decrease) in Accumulated Depreciation									\$ 1,136,588
45											
46		Adjustment to Accumulated Depreciation									\$ 1,136,588
47											

SUPPORTING SCHEDULES
 B-2 pages 4.1, 4.2 and 4.3

Lago Del Oro Water Company
 Test Year Ended December 31, 2012
 Original Cost Rate Base Proforma Adjustments
 Adjustment Number 2 - A

Exhibit
 Rebuttal Schedule B-2
 Page 4.1
 Witness: Bourassa

Line

No.

1 A/D on Purchased Plant

2

3

4 Acct.

Original

5 No. Description

Cost

6 301 Organization Cost

-

7 302 Franchise Cost

-

8 303 Land and Land Rights

-

9 304 Structures and Improvements

16,508

10 305 Collecting and Impounding Res.

-

11 306 Lake River and Other Intakes

-

12 307 Wells and Springs

74,481

13 308 Infiltration Galleries and Tunnels

-

14 309 Supply Mains

-

15 310 Power Generation Equipment

9,372

16 311 Electric Pumping Equipment

82,196

17 320 Water Treatment Equipment

-

18 320.1 Water Treatment Plant

-

19 320.2 Chemical Solution Feeders

-

20 330 Dist. Reservoirs & Standpipe

-

21 330.1 Storage tanks

48,478

22 330.2 Pressure Tanks

13,387

23 331 Trans. and Dist. Mains

747,934

24 333 Services

79,977

25 334 Meters

-

26 335 Hydrants

60,726

27 336 Backflow Prevention Devices

-

28 339 Other Plant and Misc. Equip.

-

29 340 Office Furniture and Fixtures

-

30 340.1 Computers and Software

-

31 341 Transportation Equipment

-

32 342 Stores Equipment

-

33 343 Tools and Work Equipment

-

34 344 Laboratory Equipment

-

35 345 Power Operated Equipment

-

36 346 Communications Equipment

3,529

37 347 Miscellaneous Equipment

0

38 348 Other Tangible Plant

-

39 Plant Held for Future Use

-

40 TOTALS

\$ 1,136,588

41

42

43 SUPPORTING SCHEDULE

44 B-2, pages 3.1 through 3.2

45 B-2, pages 3.4 through 3.29

Lago Del Oro Water Company
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - B

Exhibit
Rebuttal Schedule B-2
Page 4.2
Witness: Bourassa

Line

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Lago Del Oro Water Company
 Test Year Ended December 31, 2012
 Original Cost Rate Base Proforma Adjustments
 Adjustment Number 2 - C

Exhibit
 Rebuttal Schedule B-2
 Page 4.3
 Witness: Bourassa

Line
 No.

		<u>Reconciliation of A/D to A/D Reconstruction</u>				
		Adjusted Original Cost	B-2 Adjustments	A/D Adjusted Original Cost	A/D Per Reconstruction	Proposed A/D Adjustment
1						
2						
3						
4	Acct.					
5	<u>No.</u>					
6	<u>Description</u>					
6	301 Organization Cost	-	-	-	-	-
7	302 Franchise Cost	-	-	-	-	-
8	303 Land and Land Rights	-	-	-	-	-
9	304 Structures and Improvements	123,773	16,508	140,281	140,281	-
10	305 Collecting and Impounding Res.	-	-	-	-	-
11	306 Lake River and Other Intakes	-	-	-	-	-
12	307 Wells and Springs	1,237,863	74,481	1,312,344	1,312,344	-
13	308 Infiltration Galleries and Tunnels	-	-	-	-	-
14	309 Supply Mains	-	-	-	-	-
15	310 Power Generation Equipment	9,102	9,372	18,474	18,474	-
16	311 Electric Pumping Equipment	1,268,371	82,196	1,350,567	1,350,567	-
17	320 Water Treatment Equipment	-	-	-	-	-
18	320.1 Water Treatment Plant	-	-	-	-	-
19	320.2 Chemical Solution Feeders	1,726	-	1,726	1,726	-
20	330 Dist. Reservoirs & Standpipe	-	-	-	-	-
21	330.1 Storage tanks	999,447	48,478	1,047,925	1,047,925	-
22	330.2 Pressure Tanks	153,633	13,387	167,020	167,020	-
23	331 Trans. and Dist. Mains	3,112,967	747,934	3,860,901	3,860,901	-
24	333 Services	984,751	79,977	1,064,728	1,064,728	-
25	334 Meters	329,187	-	329,187	329,187	-
26	335 Hydrants	406,730	60,726	467,456	467,456	-
27	336 Backflow Prevention Devices	-	-	-	-	-
28	339 Other Plant and Misc. Equip.	-	-	-	-	-
29	340 Office Furniture and Fixtures	9,860	-	9,860	9,860	-
30	340.1 Computers and Software	-	-	-	-	-
31	341 Transportation Equipment	(23,159)	-	(23,159)	(23,159)	-
32	342 Stores Equipment	-	-	-	-	-
33	343 Tools and Work Equipment	-	-	-	-	-
34	344 Laboratory Equipment	-	-	-	-	-
35	345 Power Operated Equipment	44,485	-	44,485	44,485	-
36	346 Communications Equipment	183,184	3,529	186,713	186,713	-
37	347 Miscellaneous Equipment	(1,121)	0	(1,121)	(1,121)	-
38	348 Other Tangible Plant	-	-	-	-	-
39	Loss on Plant Disposal	-	-	-	-	-
40	TOTALS	\$ 8,840,798	\$ 1,136,588	\$ 9,977,386	\$ 9,977,386	\$ -

41
 42
 43 SUPPORTING SCHEDULE
 44 B-2, pages 4.1 through 4.2
 45 B-2, pages 3.4 through 3.29

Lago Del Oro Water Company
 Test Year Ended December 31, 2012
 Original Cost Rate Base Proforma Adjustments
 Adjustment 3

Exhibit
 Rebuttal Schedule B-2
 Page 5
 Witness: Bourassa

Contributions-in-Aid of Construction (CIAC) and Accumulated Amortization

Line			
<u>No.</u>			
1			
2			
3		<u>Gross</u>	<u>Accumulated</u>
4		<u>CIAC</u>	<u>Amortization</u>
5	Computed balance at 12/31/2012	\$ 852,693	\$ 469,879
6			
7	Book balance at 12/31/2012	<u>\$ 852,693</u>	<u>\$ 469,879</u>
8			
9	Increase (decrease)	\$ -	\$ -
10			
11			
12	Adjustment to CIAC/AA CIAC	<u>\$ -</u>	<u>\$ -</u>
13	Label	3a	3b
14			
15			
16			
17			
18			
19	<u>SUPPORTING SCHEDULES</u>		
20	E-1		
21	B-2, page 5.1 to 5.4		
22			
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Lago Del Oro Water Company
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment 4
Advances-in-Aid of Construction (AIAC)

Exhibit
Rebuttal Schedule B-2
Page 6
Witness: Bourassa

Line
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4	Computed balance	\$	297,640
6	Adjusted balance at per Direct	\$	<u>297,640</u>
8	Increase (decrease)	\$	-

SUPPORTING SCHEDULES
E-1
Work papers

Lago Del Oro Water Company
 Test Year Ended December 31, 2012
 Original Cost Rate Base Proforma Adjustments
 Adjustment 5

Line No.	Deferred Income Tax as of December 31, 2012	Water & Sewer Adjusted Book Value	Water & Sewer Tax Value	Probability of Realization of Future Tax Benefit	Deductible TD (Taxable TD) Expected to be Realized	Effective Tax Rate	Future Tax Asset Current	Future Tax Asset Non Current	Future Tax Liability Current	Future Tax Liability Non Current
1	Plant-in-Service	\$ 18,200,198 ¹								
2	Accum. Deprec. CIAC	(9,977,386) ¹								
3		(591,162) ³								
4	Fixed Assets	\$ 7,631,650	\$ 6,887,424 ²	100.0%	\$ (744,227)	31.30%		-		(232,913)
5	Fixed Assets	\$ 7,631,650	\$ 9,019,802 ²	100.0%	\$ 1,388,151	6.50%		90,230		-
6	Fed. State									
7	Fed & State AIAC		201,146 ⁴	100.0%	\$ 201,146 ⁴	37.80%	\$	76,025		
8	Net Asset (Liability)						\$	166,255	\$	(232,913)
9	Adjusted DIT Asset (Liability) per Direct Adjustment to DIT						\$	(66,658)	\$	(279,359)
10							\$	(212,701)	\$	(212,701)

Footnotes - See page 7.1

Lago Del Oro Water Company
 Test Year Ended December 31, 2012
 Computation of Working Capital

Exhibit
 Rebuttal Schedule B-5
 Page 1
 Witness: Bourassa

Line			
<u>No.</u>			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	78,175
3	Pumping Power (1/24 of Pumping Power)		-
4	Purchased Water (1/24 of Purchased Water)		18,451
5	Prepaid Expenses		
6			
7			
8			
9	Total Working Capital Allowance	<u>\$</u>	<u>96,626</u>
10			
11			
12	Working Capital Requested	<u>\$</u>	<u>-</u>
13			
14			
15			
16			
17		<u>Adjusted Test Year</u>	
18	Total Operating Expense	\$	1,937,076
19	Less:		
20	Income Tax	\$	(85,942)
21	Property Tax		93,667
22	Depreciation		861,127
23	Purchased Water		442,823
24	Pumping Power		-
25	Allowable Expenses	<u>\$</u>	<u>625,401</u>
26	1/8 of allowable expenses	<u>\$</u>	<u>78,175</u>
27			
28			
29	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>	
30	E-1	B-1	
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Lago Del Oro Water Company
Test Year Ended December 31, 2012
Income Statement

Exhibit
 Rebuttal Schedule C-1
 Page 1
 Witness: Bourassa

Line No.		Test Year Adjusted Results	Adjustment	Rebuttal Test Year Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	Revenues					
2	Metered Water Revenues	\$ 1,865,121	\$ -	\$ 1,865,121	\$ 1,148,253	\$ 3,013,374
3	Unmetered Water Revenues	-	-	-		-
4	Other Water Revenues	17,117	-	17,117		17,117
5		<u>\$ 1,882,238</u>	<u>\$ -</u>	<u>\$ 1,882,238</u>	<u>\$ 1,148,253</u>	<u>\$ 3,030,491</u>
6	Operating Expenses					
7	Salaries and Wages	\$ 169,991	-	\$ 169,991		\$ 169,991
8	Employee Pensions and Benefits	35,228	-	35,228		35,228
9	Purchased Water	-	-	-		-
10	Purchased Power	442,823	-	442,823		442,823
11	Fuel For Power Production	-	-	-		-
12	Chemicals	21,969	-	21,969		21,969
13	Materials and Supplies	80,299	-	80,299		80,299
14	Office Supplies and Expense	66,431	-	66,431		66,431
15	Contractual Services - Engineering	-	-	-		-
16	Contractual Services - Accounting	533	8,000	8,533		8,533
17	Contractual Services - Legal	166	-	166		166
18	Contractual Services - Other	57,785	-	57,785		57,785
19	Contractual Services - Testing	22,433	5,392	27,825		27,825
20	Rents	9,435	-	9,435		9,435
21	Transportation Expenses	42,440	-	42,440		42,440
22	Insurance - Vehicle	5,165	-	5,165		5,165
23	Insurance - General Liability	20,083	-	20,083		20,083
24	Reg. Comm. Exp. - Other	855	-	855		855
25	Reg. Comm. Exp. - Rate Case	55,000	-	55,000		55,000
26	Bad Debt Expense	4,922	-	4,922		4,922
27	Miscellaneous Expense	19,274	-	19,274		19,274
28	Depreciation and Amortization Expense	861,127	-	861,127		861,127
29	Taxes Other Than Income	-	-	-		-
30	Property Taxes	98,597	(4,930)	93,667	19,635	113,302
31	Income Tax	(128,849)	42,906	(85,942)	426,572	340,629
32		-	-	-		-
33	Total Operating Expenses	<u>\$ 1,885,708</u>	<u>\$ 51,368</u>	<u>\$ 1,937,076</u>	<u>\$ 446,207</u>	<u>\$ 2,383,283</u>
34	Operating Income	<u>\$ (3,470)</u>	<u>\$ (51,368)</u>	<u>\$ (54,838)</u>	<u>\$ 702,046</u>	<u>\$ 647,208</u>
35	Other Income (Expense)					
36	Interest Income	-	-	-		-
37	Other income	-	-	-		-
38	Interest Expense	(204,322)	106,088	(98,234)		(98,234)
39	Other Expense	-	-	-		-
40		-	-	-		-
41	Total Other Income (Expense)	<u>\$ (204,322)</u>	<u>\$ 106,088</u>	<u>\$ (98,234)</u>	<u>\$ -</u>	<u>\$ (98,234)</u>
42	Net Profit (Loss)	<u>\$ (207,792)</u>	<u>\$ 54,720</u>	<u>\$ (153,072)</u>	<u>\$ 702,046</u>	<u>\$ 548,975</u>

43
 44 SUPPORTING SCHEDULES:
 45 C-1, page 2
 46 E-2
 47

RECAP SCHEDULES:
 A-1

Lago Del Oro Water Company
 Test Year Ended December 31, 2012
 Income Statement

Exhibit
 Rebuttal Schedule C-1
 Page 2.1
 Witness: Bourassa

Line No.	Revenues	1 Depreciation	2 Property Taxes	3 Staff Water Testing Adjustment	4 Financial Audit Costs	5 Water Testing
1	Metered Water Revenues	\$ 1,865,121				
2	Unmetered Water Revenues	17,117				
3	Other Water Revenues	\$ 1,882,238	\$ -	\$ -	\$ -	\$ -
4	Operating Expenses					
5	Salaries and Wages	\$ 169,991				
6	Employee Pensions and Benefits	35,228				
7	Purchased Water	-				
8	Fuel For Power Production	442,823				
9	Chemicals	-				
10	Materials and Supplies	21,969				
11	Office Supplies and Expense	80,299				
12	Contractual Services - Engineering	66,431			8,000	
13	Contractual Services - Accounting	-				
14	Contractual Services - Legal	533				
15	Contractual Services - Other	166				
16	Contractual Services - Testing	57,785		(548)		5,940
17	Rents	22,433				
18	Transportation Expenses	9,435				
19	Insurance - Vehicle	42,440				
20	Insurance - General Liability	5,165				
21	Reg. Comm. Exp. - Other	20,083				
22	Reg. Comm. Exp. - Rate Case	855				
23	Bad Debt Expense	55,000				
24	Miscellaneous Expense	4,922				
25	Depreciation and Amortization Expense	19,274				
26	Taxes Other Than Income	861,127				
27	Property Taxes	-	(4,930)			
28	Income Tax	98,597				
29		(128,849)				
30	Total Operating Expenses	\$ 1,885,708	\$ (4,930)	\$ (548)	\$ 8,000	\$ 5,940
31	Operating Income	\$ (3,470)	\$ 4,930	\$ 548	\$ (8,000)	\$ (5,940)
32	Other Income (Expense)					
33	Interest Income	-				
34	Other Income	-				
35	Interest Expense	(204,322)				
36	Other Expense	-				
37	Total Other Income (Expense)	\$ (204,322)	\$ -	\$ -	\$ -	\$ -
38	Net Profit (Loss)	\$ (207,792)	\$ 4,930	\$ 548	\$ (8,000)	\$ (5,940)

SUPPORTING SCHEDULES:
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Lago Del Oro Water Company
 Test Year Ended December 31, 2012
 Adjustments to Revenues and Expenses
 Adjustment Number 1

Exhibit
 Rebuttal Schedule C-2
 Page 2
 Witness: Bourassa

Depreciation Expense

Line
No.

Line No.	Acct. No.	Description	Original Cost	Non-Depr. or Fully Depr. Plant	Adjusted Original Cost	Proposed Rates	Depreciation Expense
1							
2							
3							
4							
5	301	Organization Cost	\$ -		\$ -	0.00%	\$ -
6	302	Franchise Cost	-		-	0.00%	-
7	303	Land and Land Rights	42,608	(42,608)	-	0.00%	-
8	304	Structures and Improvements	359,681		359,681	3.33%	11,977
9	305	Collecting and Impounding Res.	-		-	2.50%	-
10	306	Lake River and Other Intakes	-		-	2.50%	-
11	307	Wells and Springs	2,164,423		2,164,423	3.33%	72,075
12	308	Infiltration Galleries and Tunnels	-		-	6.67%	-
13	309	Supply Mains	-		-	2.00%	-
14	310	Power Generation Equipment	187,864		187,864	5.00%	9,393
15	311	Electric Pumping Equipment	3,585,660		3,585,660	12.50%	448,207
16	320	Water Treatment Equipment	-		-	3.33%	-
17	320.1	Water Treatment Plant	-		-	3.33%	-
18	320.2	Chemical Solution Feeders	24,640		24,640	20.00%	4,928
19	330	Dist. Reservoirs & Standpipe	-		-	2.22%	-
20	330.1	Storage tanks	1,758,175		1,758,175	2.22%	39,031
21	330.2	Pressure Tanks	321,969		321,969	5.00%	16,098
22	331	Trans. and Dist. Mains	6,083,805		6,083,805	2.00%	121,676
23	333	Services	1,888,741		1,888,741	3.33%	62,895
24	334	Meters	504,321		504,321	8.33%	42,010
25	335	Hydrants	718,857		718,857	2.00%	14,377
26	336	Backflow Prevention Devices	-		-	6.67%	-
27	339	Other Plant and Misc. Equip.	-		-	6.67%	-
28	340	Office Furniture and Fixtures	36,758		36,758	6.67%	2,452
29	340.1	Computers and Software	-		-	20.00%	-
30	341	Transportation Equipment	89,569		89,569	20.00%	17,914
31	342	Stores Equipment	-		-	4.00%	-
32	343	Tools and Work Equipment	-		-	5.00%	-
33	344	Laboratory Equipment	-		-	10.00%	-
34	345	Power Operated Equipment	55,787		55,787	5.00%	2,789
35	346	Communications Equipment	351,219		351,219	10.00%	35,122
36	347	Miscellaneous Equipment	26,122		26,122	10.00%	2,612
37	348	Other Tangible Plant	-		-	10.00%	-
38		TOTALS	\$ 18,200,199	\$ (42,608)	\$ 18,157,591		\$ 903,558

39							
40							
41		Less: Amortization of Contributions			Gross CIAC \$ 852,693	Amort. Rate 4.9762%	\$ (42,432)
42							-
43							-
44					\$ -		\$ (42,432)
45		Total Depreciation Expense					\$ 861,127
46							
47		Adjusted Test Year Depreciation Expense					861,127
48							
49		Increase (decrease) in Depreciation Expense					\$ -
50							
51		Adjustment to Revenues and/or Expenses					\$ -
52							

53 SUPPORTING SCHEDULE

54 B-2, page 3

*Fully Depreciated/Amortized

Lago Del Oro Water Company
 Test Year Ended December 31, 2012
 Adjustment to Revenues and Expenses
 Adjustment Number 2

Exhibit
 Rebuttal Schedule C-:
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 Witness: Bourassa

Property Taxes

Line No.	<u>DESCRIPTION</u>	<u>Test Year as adjusted</u>	<u>Company Recommended</u>
1	Company Adjusted Test Year Revenues	\$ 1,882,238	\$ 1,882,238
2	Weight Factor	<u>2</u>	<u>2</u>
3	Subtotal (Line 1 * Line 2)	3,764,476	3,764,476
4	Company Recommended Revenue	1,882,238	3,030,491
5	Subtotal (Line 4 + Line 5)	5,646,713	6,794,967
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	1,882,238	2,264,989
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	3,764,476	4,529,978
10	Plus: 10% of CWIP (intentionally excluded)	-	-
11	Less: Net Book Value of Licensed Vehicles	112,728	112,728
12	Full Cash Value (Line 9 + Line 10 - Line 11)	3,651,748	4,417,250
13	Assessment Ratio	19.0%	19.0%
14	Assessment Value (Line 12 * Line 13)	693,832	839,278
15	Composite Property Tax Rate - Obtained from ADOR	13.5000%	13.5000%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 93,667	\$ 113,302
17	Tax on Parcels	-	-
18	Total Property Taxes (Line 16 + Line 17)	<u>\$ 93,667</u>	
19	Test Year Property Taxes	<u>\$ 98,597</u>	
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	<u>\$ (4,930)</u>	
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		<u>\$ 113,302</u>
23	Company Test Year Adjusted Property Tax Expense (Line 18)		<u>\$ 93,667</u>
24	Increase in Property Tax Due to Increase in Revenue Requirement		<u>\$ 19,635</u>
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		\$ 19,635
27	Increase in Revenue Requirement		\$ 1,148,253
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		1.71000%
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			

Lago Del Oro Water Company
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 3

Exhibit
Rebuttal Schedule C-2
Page 4
Witness: Bourassa

Water Testing Expense

Line
No.

1		
2		
3	Staff Recommended Water Testing Expense	\$ 21,885
4		
5	Adjusted Text Year Water Testing Expense	<u>\$ 22,433</u>
6	Increase(decrease) Rate Case Expense	<u>\$ (548)</u>
7		
8	Adjustment to Revenue and/or Expense	<u>\$ (548)</u>
9		
10		
11		
12		
13		
14		
15		
16		
17		
18		
19	<u>Reference</u>	
20	Staf Adjustment 1	

Lago Del Oro Water Company
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Rebuttal Schedule C-2
Page 5
Witness: Bourassa

Outside Audit Costs

Line

No.

1

2

3

4

Costs for required annual audits related to debt financing

\$ 8,000

5

6

7

8

Adjustment to Contractual Services - Accounting

\$ 8,000

9

10

11

Adjustment to Revenue and/or Expense

\$ 8,000

12

13

SUPPORTING SCHEDULES

14

Testimony

15

16

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Lago Del Oro Water Company
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Rebuttal Schedule C-2
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Witness: Bourassa

Water Testing Expense

Line
No.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20

EPA Unregulated Contaminant Monitoring Required Testing Rule 3	\$	32,280
LDO allocattion		92.00%
LDO allocated share of costs	\$	29,698
Amortization period (years)		5
Annual Amortization of Testing Expense	\$	5,940
Adjustment to Revenue and/or Expense	<u>\$</u>	<u>5,940</u>

SUPPORTING SCHEDULES

Testimony

Lago Del Oro Water Company
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
 Rebuttal Schedule C-2
 Page 7
 Witness: Bourassa

Interest Synchronization

Line			
<u>No.</u>			
1			
2			
3			
4	Fair Value Rate Base	\$ 7,363,846	
5	Weighted Cost of Debt	1.33%	
6	Interest Expense		\$ 98,234
7			
8	Test Year Interest Expense		<u>\$ 204,322</u>
9			
10	Increase (decrease) in Interest Expense		(106,088)
11			
12			
13			
14	Adjustment to Revenue and/or Expense		<u>\$ 106,088</u>
15			
16			
17	<u>Weighted Cost of Debt Computation</u>		
18			
19		<u>Percent</u>	<u>Weighted</u>
20	Debt	29.00%	<u>Cost</u> 4.60% 1.33%
21	Equity	71.00%	10.50% <u>7.46%</u>
22	Total	<u>100.00%</u>	<u>8.79%</u>
23			
24			
25			
26			
27			
28			
29			
30			

Lago Del Oro Water Company
Test Year Ended December 31, 2012
Adjustment to Revenues and/or Expenses
Adjustment Number 7

Exhibit
Rebuttal Schedule C-2
Page 8
Witness: Bourassa

Line
No.

1 Income Taxes

2

3

4 Computed Income Tax

5 Test Year Income tax Expense

6 Adjustment to Income Tax Expense

7

8

9

10

11

12

13 SUPPORTING SCHEDULE

14 C-3, page 2

15

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30

	<u>Test Year</u> <u>at Present Rates</u>	<u>Test Year</u> <u>at Proposed Rates</u>
	\$ (85,942)	\$ 340,629
	<u>(128,849)</u>	<u>(85,942)</u>
	<u>\$ 42,906</u>	<u>\$ 426,572</u>

Lago Del Oro Water Company
 Test Year Ended December 31, 2012
 Computation of Gross Revenue Conversion Factor

Exhibit
 Rebuttal Schedule C-3
 Page 1
 Witness: Bourassa

Line No.	<u>Description</u>	Percentage of Incremental Gross <u>Revenues</u>
1	Combined Federal and State Effective Income Tax Rate	37.796%
2		
3	Property Taxes	<u>1.064%</u>
4		
5		
6	Total Tax Percentage	38.860%
7		
8	Operating Income % = 100% - Tax Percentage	61.140%
9		
10		
11		
12		
13	<u>1</u> = Gross Revenue Conversion Factor	
14	Operating Income %	1.6356

25 SUPPORTING SCHEDULES:

26 C-3, page 2

RECAP SCHEDULES:

A-1

27
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GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	(E)	(F)
<u>Calculation of Gross Revenue Conversion Factor:</u>							
1	Revenue	100.0000%					
2	Uncollectible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	38.8596%					
5	Subtotal (L3 - L4)	61.1404%					
6	Revenue Conversion Factor (L1 / L5)	1.635580					
<u>Calculation of Uncollectible Factor:</u>							
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (L17)	37.7959%					
9	One Minus Combined Income Tax Rate (L7 - L8)	62.2041%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
<u>Calculation of Effective Tax Rate:</u>							
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate	6.5000%					
14	Federal Taxable Income (L12 - L13)	93.5000%					
15	Applicable Federal Income Tax Rate (L55 Col F)	33.4716%					
16	Effective Federal Income Tax Rate (L14 * L15)	31.2959%					
17	Combined Federal and State Income Tax Rate (L13 + L16)		37.7959%				
<u>Calculation of Effective Property Tax Factor:</u>							
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	37.7959%					
20	One Minus Combined Income Tax Rate (L18-L19)	62.2041%					
21	Property Tax Factor	1.7100%					
22	Effective Property Tax Factor (L20*L21)		1.0637%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			38.8596%			
24	Required Operating Income	\$ 647,208					
25	Adjusted Test Year Operating Income (Loss)	\$ (54,838)					
26	Required Increase in Operating Income (L24 - L25)		\$ 702,046				
27	Income Taxes on Recommended Revenue (Col. (F), L52)	\$ 340,629					
28	Income Taxes on Test Year Revenue (Col. (C), L52)	\$ (85,942)					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ 426,572				
30	Recommended Revenue Requirement	\$ 3,030,491					
31	Uncollectible Rate (Line 10)	0.0000%					
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$ -					
33	Adjusted Test Year Uncollectible Expense	\$ -					
34	Required Increase in Revenue to Provide for Uncollectible Exp.		\$ -				
35	Property Tax with Recommended Revenue	\$ 113,302					
36	Property Tax on Test Year Revenue	\$ 93,667					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		\$ 19,635				
38	Total Required Increase in Revenue (L26 + L29 + L37)		\$ 1,148,253				

	(A) Test Year		(B) Test Year		(C) Test Year		(D) Company Recommended		(E)	(F)
	Total Water	Water	Total Water	Water	Total Water	Water	Total Water	Water		
39	Revenue	\$ 1,882,238	\$ 1,882,238	\$ 2,023,018	\$ 2,023,018	\$ 3,030,491	\$ 3,030,491	\$ 2,042,653		\$ 2,042,653
40	Operating Expenses Excluding Income Taxes	2,023,018	2,023,018	98,234	98,234	98,234	98,234	889,605		889,604
41	Synchronized Interest (L47)	(239,014)	(239,014)	(15,536)	(15,536)	(15,536)	(15,536)	6.5000%		6.5000%
42	Arizona Taxable Income (L39 - L40 - L41)	(239,014)	(239,014)	(15,536)	(15,536)	(15,536)	(15,536)	6.5000%		6.5000%
43	Arizona State Effective Income Tax Rate (see work papers)	6.5000%	6.5000%	6.5000%	6.5000%	6.5000%	6.5000%	6.5000%		6.5000%
44	Arizona Income Tax (L42 x L43)	(15,536)	(15,536)	(223,478)	(223,478)	(223,478)	(223,478)	57,824		57,824
45	Federal Taxable Income (L42 - L44)	(223,478)	(223,478)	(223,478)	(223,478)	(223,478)	(223,478)	831,781		831,780
46								7,500		7,500
47	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	(7,500)	(7,500)	(6,250)	(6,250)	(6,250)	(6,250)	6,250		6,250
48	Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	(6,250)	(6,250)	(8,500)	(8,500)	(8,500)	(8,500)	8,500		8,500
49	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	(8,500)	(8,500)	(48,156)	(48,156)	(48,156)	(48,156)	91,650		91,650
50	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	(48,156)	(48,156)	-	-	-	-	168,905		168,905
51	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	-	-							
52										
53	Total Federal Income Tax	(70,406)	(70,406)	(85,942)	(85,942)	(85,942)	(85,942)	282,805		282,805
54	Combined Federal and State Income Tax (L35 + L42)	(85,942)	(85,942)					340,630		340,629
55	COMBINED Applicable Federal Income Tax Rate [Col. (D), L53 - Col. (A), L53] / [Col. (D), L45 - Col. (A), L45]							33.4716%		
56	WASTEWATER Applicable Federal Income Tax Rate [Col. (E), L53 - Col. (B), L53] / [Col. (E), L45 - Col. (B), L45]							0.0000%		
57	WATER Applicable Federal Income Tax Rate [Col. (F), L53 - Col. (C), L53] / [Col. (F), L45 - Col. (C), L45]									33.4716%

Calculation of Interest Synchronization:

58	Rate Base	\$ 7,363,846
59	Weighted Average Cost of Debt	1.3340%
60	Synchronized Interest (L59 X L60)	\$ 98,234

Lago Del Oro Water Company
 Analysis of Revenue by Detailed Class
 Test Year Ended December 31, 2012

Line No.	Customer Classification and/or Meter Size	Average Number of Customers at 12/31/2012	Average Bill		Average Consumption	Proposed Increase		Percent of Customers
			Present Rates	Proposed Rates		Dollar Amount	Percent Amount	
1	5/8x3/4 Inch Residential	6,050	\$ 21.49	\$ 31.16	\$ 9.68	45.03%	95.07%	
2	3/4 Inch Residential	114	\$ 25.30	\$ 37.47	\$ 12.17	48.13%	1.79%	
3	1 Inch Residential	53	32.46	54.70	22.24	68.51%	0.83%	
4	1 1/2 Inch Residential	2	68.80	123.11	54.31	78.93%	0.03%	
5	2 Inch Residential	12	67.59	131.00	63.41	93.81%	0.19%	
6								
7	5/8x3/4 Inch Commercial	-	12.40	14.88	2.48	20.00%	0.00%	
8	3/4 Inch Commercial	35	14.85	24.89	10.04	67.65%	0.55%	
9	1 Inch Commercial	16	126.52	263.86	137.34	108.55%	0.26%	
10	1 1/2 Inch Commercial	12	48.39	89.31	40.93	84.58%	0.19%	
11	2 Inch Commercial	20	153.96	287.33	133.37	86.63%	0.31%	
12	3 Inch Commercial	2	246.82	470.65	223.84	90.69%	0.03%	
13	6 Inch Commercial	4	629.66	1,332.48	702.82	111.62%	0.06%	
14								
15	5/8x3/4 Inch Irrigation	-	12.40	14.88	2.48	20.00%	0.00%	
16	3/4 Inch Irrigation	8	19.76	33.03	13.27	67.13%	0.13%	
17	1 Inch Irrigation	3	41.51	69.69	28.17	67.87%	0.04%	
18	1 1/2 Inch Irrigation	1	34.15	65.74	31.59	92.51%	0.02%	
19	2 Inch Irrigation	22	141.78	259.18	117.40	82.81%	0.35%	
20	3 Inch Irrigation	2	168.49	340.97	172.49	102.38%	0.03%	
21	4 Inch Irrigation	1	86.93	258.80	171.88	197.73%	0.02%	
22								
23	Golf Course Irrigation	2	2,492.64	5,926.34	3,433.70	137.75%	0.03%	
24								
25	5/8x3/4 Inch Hydrant/Construction	5	28.28	45.02	16.74	59.20%	0.08%	
26								
27								
28								
29	Totals	6,363					100.00%	
30								
31	Actual Year End Number of Customers:	6,356						
32								
33								
34								
35								
36								

Lago Del Oro Water Company
 Analysis of Revenue by Detailed Class
 Test Year Ended December 31, 2012

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 Rebuttal Schedule H-2
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 Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	Average Number of Customers at 12/31/2012	Median Consumption	Median Bill		Proposed Rates	Proposed Dollar Amount	Proposed Increase Percent Amount	Percent of Customers
				Present Rates	Proposed Rates				
1	5/8x3/4 Inch Residential	6,050	5,500	18.70	\$	26.55	\$ 7.85	41.98%	95.07%
2	3/4 Inch Residential	114	6,500	20.50	\$	29.53	\$ 9.03	44.05%	1.79%
3	1 Inch Residential	53	6,500	26.10	\$	44.17	\$ 18.07	69.23%	0.83%
4	1 1/2 Inch Residential	2	22,500	64.90	\$	116.65	\$ 51.75	79.74%	0.03%
5	2 Inch Residential	12	3,500	42.70	\$	89.79	\$ 47.09	110.28%	0.19%
6									
7	5/8x3/4 Inch Commercial	-	-	12.40	\$	14.88	\$ 2.48	20.00%	0.00%
8	3/4 Inch Commercial	35	1,500	12.40	\$	19.35	\$ 6.95	56.05%	0.55%
9	1 Inch Commercial	16	3,500	20.70	\$	35.23	\$ 14.53	70.19%	0.26%
10	1 1/2 Inch Commercial	12	12,000	46.00	\$	85.36	\$ 39.36	85.57%	0.19%
11	2 Inch Commercial	20	37,500	103.90	\$	191.11	\$ 87.21	83.94%	0.31%
12	3 Inch Commercial	2	86,850	214.73	\$	417.53	\$ 202.80	94.45%	0.03%
13	6 Inch Commercial	4	500	128.00	\$	497.49	\$ 369.49	288.66%	0.06%
14									
15	5/8x3/4 Inch Irrigation	-	-	12.40	\$	14.88	\$ 2.48	20.00%	0.00%
16	3/4 Inch Irrigation	8	2,500	13.30	\$	22.33	\$ 9.03	67.89%	0.13%
17	1 Inch Irrigation	3	1,500	18.00	\$	29.27	\$ 11.27	62.61%	0.04%
18	1 1/2 Inch Irrigation	1	5,500	34.30	\$	65.99	\$ 31.69	92.39%	0.02%
19	2 Inch Irrigation	22	32,500	94.90	\$	176.21	\$ 81.31	85.68%	0.35%
20	3 Inch Irrigation	2	70,000	184.40	\$	367.32	\$ 182.92	99.20%	0.03%
21	4 Inch Irrigation	1	3,500	86.70	\$	258.43	\$ 171.73	198.07%	0.02%
22									
23	Golf Course Irrigation	2	5,511,000	2,039.07	\$	4,884.35	\$ 2,845.28	139.54%	0.03%
24									
25	5/8x3/4 Inch Hydrant/Construction	5	500	12.40	\$	2.08	\$ (10.32)	-83.23%	0.08%
26									
27									
28									
29	Totals								
30									<u>100.00%</u>
31	Actual Year End Number of Customers:								
32									
33									
34									
35									
36									

6,363

6,356

Line No.	Monthly Usage Charge for: Meter Size (All Classes):	Present Rates	Proposed Rates	Change	Percent Change
1	5/8x3/4 Inch	\$ 12.40	\$ 14.88	\$ 2.48	20.00%
2	3/4 Inch	12.40	14.88	2.48	20.00%
3	1 Inch	18.00	24.80	6.80	37.78%
4	1 1/2 Inch	28.00	49.60	21.60	77.14%
5	2 Inch	40.00	79.36	39.36	98.40%
6	3 Inch	62.00	158.72	96.72	156.00%
7	4 Inch	84.00	248.00	164.00	195.24%
8	5 Inch	106.00	Remove	NM	NM
9	6 Inch	128.00	496.00	368.00	287.50%
10	8 Inch	150.00	793.60	643.60	429.07%
11	Golf Course Irrigation	-	200.00	200.00	NM
12	Construction/Hydrant	NT	-	-	NM
13					
14	Gallons In Minimum (all classes, except golf course irrigation)	2,000	-	-	
15					
16	Gallons In Minimum (golf course irrigation)	-	-	-	
17					
18					
19					
20					
21	<u>Commodity Rates (per 1,000 gallons)</u>				
22	5/8x3/4 Inch (all classes, except golf course irrigation)		\$ 1.80		
23					
24	5/8x3/4 Inch - Residential			\$ 1.80	
25				\$ 2.98	
26				\$ 4.16	
27					
28					
29	5/8x3/4 Inch - Commercial, Irrigation (except golf course irrigation)		\$ 2.98		
30				\$ 4.16	
31					
32	3/4 Inch Meter (all classes, except golf course irrigation)		\$ 1.80		
33					
34	3/4 Inch Meter - Residential			\$ 1.80	
35				\$ 2.98	
36				\$ 4.16	
37					
38	3/4 Inch Meter - Commercial, Irrigation (except golf course irrigation)		\$ 2.98		
39				\$ 4.16	
40					
41					
42					
43					
44					
45	NM = not meaningful				
46	NT = No Tariff				
47					

Lago Del Oro Water Company
 Test Year Ended December 31, 2012
 Present and Proposed Rates

Line No.	Commodity Rates (per 1,000 gallons)	Block Over Minimum	Present Rate	Proposed Rate
1			1.80	
2				
3	1 Inch Meter (all classes, except golf course irrigation)	Over Minimum		
4				
5				
6	1 Inch Meter (all classes, except golf course irrigation, hydrant)	1 gallons to 17,000 gallons over 17,000 gallons	\$	\$ 2.98
7				\$ 4.16
8				
9	1.5 Inch Meter (all classes, except golf course irrigation)	Over Minimum	1.80	
10				
11	1.5 Inch Meter - (all classes, except golf course irrigation, hydrant)	1 gallons to 34,000 gallons over 34,000 gallons	\$	\$ 2.98
12				\$ 4.16
13				
14	2 Inch Meter (all classes, except golf course irrigation)	Over Minimum	1.80	
15				
16	2 Inch Meter - (all classes, except golf course irrigation, hydrant)	1 gallons to 54,000 gallons over 54,000 gallons	\$	\$ 2.98
17				\$ 4.16
18				
19	3 Inch Meter (all classes, except golf course irrigation)	Over Minimum	1.80	
20				
21	3 Inch Meter - (all classes, except golf course irrigation, hydrant)	1 gallons to 107,000 gallons over 107,000 gallons	\$	\$ 2.98
22				\$ 4.16
23				
24	4 Inch Meter (all classes, except golf course irrigation)	Over Minimum	1.80	
25				
26	4 Inch Meter (all classes, except golf course irrigation, hydrant)	1 gallons to 167,000 gallons over 167,000 gallons	\$	\$ 2.98
27				\$ 4.16
28				
29	5 Inch Meter (all classes, except golf course irrigation)	Over Minimum	1.80	
30				
31	5 Inch Meter (all classes, except golf course irrigation, hydrant)	Over Minimum		Remove
32				
33	6 Inch Meter (all classes, except golf course irrigation)	Over Minimum	1.80	
34				
35	6 Inch Meter - (all classes, except golf course irrigation, hydrant)	1 gallons to 334,000 gallons over 334,000 gallons	\$	\$ 2.98
36				\$ 4.16
37				
38	8 Inch Meter (all classes, except golf course irrigation)	Over Minimum	1.80	
39				
40	8 Inch Meter - (all classes, except golf course irrigation, hydrant)	1 gallons to 534,000 gallons over 534,000 gallons	\$	\$ 2.98
41				\$ 4.16
42				
43				
44	Golf Course Irrigation	All gallons	\$ 0.37	\$ 0.85
45				
46	Hydrant/Construction	All gallons	NT	\$ 4.16
47				
48	NT = No Tariff			

Lago Del Oro Water Company
Present and Proposed Rates
Test Year Ended December 31, 2012

Exhibit
 Rebuttal Schedule H-3
 Page 3
 Witness: Bourassa

Line
 No.

1 Meter and Service Line Charges

	Present Service Line Charge	Present Meter Install- ation Charge	Total Present Charge	Proposed Service Line Charge ¹	Proposed Meter Install- ation Charge ¹	Total Proposed Charge ¹
7 5/8 x 3/4 Inch			\$ 250.00	\$ 385.00	\$ 135.00	\$ 520.00
8 3/4 Inch			\$ 275.00	415.00	205.00	620.00
9 1 Inch			\$ 300.00	465.00	265.00	730.00
10 1 1/2 Inch			\$ 450.00	520.00	475.00	995.00
11 2 Inch			\$ 625.00			
12 2 Inch Turbo			NT	800.00	995.00	1,795.00
13 2 Inch, Compound			NT	800.00	1,840.00	2,640.00
14 3 Inch			\$ 800.00			
15 3 Inch Turbo			NT	1,015.00	1,620.00	2,635.00
16 3 Inch, compound			NT	1,135.00	2,495.00	3,630.00
17 4 Inch			\$ 975.00			
18 4 Inch Turbo			NT	1,430.00	2,570.00	4,000.00
19 4 Inch, compound			NT	1,610.00	3,545.00	5,155.00
20 5 Inch			\$ 1,150.00			
21 6 inch			\$ 1,325.00			
22 6 Inch Turbo			NT	2,150.00	4,925.00	7,075.00
23 6 Inch, compound			NT	2,270.00	6,820.00	9,090.00
24 8 Inch			\$ 1,500.00			
25 8 Inch or Larger			NT	Cost	Cost	Cost

¹ Based on ACC Staff Engineering Memo dated February 21, 2008

NT = No Tariff

Other Charges:

	Present	Proposed
33 Establishment	\$ 25.00	\$ 25.00
34 Reestablishment After Hours	\$ 30.00	NT
35 Reestablishment within 12 months	*	*
36 Reconnection/Delinquent	\$ 25.00	\$ 25.00
37 Meter Test (if correct)	\$ 30.00	\$ 30.00
38 Meter Re-read (if correct)	\$ 15.00	\$ 15.00
39 Deposit	**	**
40 Deposit Interest	**	**
41 NSF Check	\$ 10.00	\$ 10.00
42 Deferred Payment, per month	15% per annum	1.5% per month
43 Late Payment Fee (per month)	NT	1.5% per month
44 After hours service charge	NT	\$ 30.00
45		
46		
47		
48		
49		
50		

* Number of months off the system times the monthly minimum.

** Per Rule R14-2-403.B

NT = No Tariff

1 FENNEMORE CRAIG
A Professional Corporation
2 Jay L. Shapiro (No. 014650)
2394 East Camelback Road, Suite 600
3 Phoenix, Arizona 85016
Telephone (602) 916-5000
4 Attorneys for Lago del Oro Water Company
5

6
7 **BEFORE THE ARIZONA CORPORATION COMMISSION**

8
9 IN THE MATTER OF THE APPLICATION
10 OF LAGO DEL ORO WATER COMPANY,
AN ARIZONA CORPORATION, FOR A
11 DETERMINATION OF THE FAIR VALUE
OF ITS UTILITY PLANTS AND
12 PROPERTY AND FOR INCREASES IN
ITS WATER RATES AND CHARGES FOR
UTILITY SERVICE BASED THEREON.
13

DOCKET NO: W-01944A-13-0215

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15
16 **REBUTTAL TESTIMONY OF**
17 **THOMAS J. BOURASSA**
18 **COST OF CAPITAL**

19 **February 18, 2014**
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8906617.1/058113.0008

1 **I. INTRODUCTION AND QUALIFICATION**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

3 A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive,
4 Phoenix, Arizona 85029.

5 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

6 A. I am testifying on behalf of Lago Del Oro Water Company's ("LDO" or "the
7 Company"). My direct testimony was filed in support of the Company's
8 application for new rates. One volume addressed rate base, income statement and
9 rate design, and the other addressed cost of capital.

10 **Q. HAVE YOU ALSO PREPARED REBUTTAL TESTIMONY ON RATE
11 BASE ISSUES IN THIS DOCKET?**

12 A. Yes, my rebuttal testimony on rate base, income statement, revenue requirement
13 and rate design is being filed in a separate volume concurrently with this testimony.
14 In this volume, I present my cost of capital rebuttal testimony.

15 **Q. WHAT IS THE PURPOSE OF THIS PORTION OF YOUR REBUTTAL
16 TESTIMONY?**

17 A. I will provide updates of my cost of capital analysis and recommended rate of
18 return using more recent financial data. I also will provide rebuttal responses as
19 appropriate to the direct testimony of Staff witness Mr. John Cassidy

20 **II. SUMMARY OF REBUTTAL TESTIMONY AND THE PROPOSED COST
21 OF CAPITAL FOR THE COMPANY**

22 **A. Summary of Company's Rebuttal Recommendation**

23 **Q. WHAT IS YOUR RECOMMENDED COST OF CAPITAL?**

24 A. Based on my updated cost of capital analysis, I am continuing to recommend a cost
25 of equity of 10.5 percent. The Company is adopting Staff's recommended cost of
26 debt of 4.6 percent and capital structure consisting of 29 percent debt and

1 71 percent common equity. Based on the foregoing, the Company's weighted
 2 average cost of capital ("WACC") is 8.79 percent, as shown on Rebuttal Schedule
 3 D-1.

	<u>Capital Structure</u>	<u>Cost</u>	<u>Wtd</u> <u>Cost</u>
7 Equity	71.00%	10.50%	7.46%
8 Debt	<u>29.00%</u>	4.60%	<u>1.33%</u>
9 Total	100.00%		8.79%

10
 11 **Q. HAS THE INDICATED RETURN ON EQUITY CHANGED SINCE THE**
 12 **DIRECT FILING WAS MADE?**

13 A. Yes, it is somewhat higher. In my direct testimony, the mid-point of my cost of
 14 equity estimates was 9.9 percent.¹ The mid-point of my rebuttal cost of equity
 15 results is 10.2 percent. The table below summarizes the results of my updated
 16 analysis:

<u>Method</u>	<u>Midpoint</u>
19 Range DCF Constant Growth Estimates	9.0%
20 Range of CAPM Estimates	9.1%
21 Range of Build Up Method	<u>11.4%</u>
22 Average of DCF and CAPM midpoint 23 estimates	10.2%
24 Recommended Cost of Equity	10.5%

25
 26 ¹ Direct Testimony of Thomas J. Bourassa – Cost of Capital, ("Bourassa COC Dt.") at 47.

1 The schedules containing my updated cost of capital analysis are attached to this
2 rebuttal testimony.

3 After a consideration of the risks associated with LDO compared to the
4 publicly traded utility companies, I conclude the required cost of equity is above
5 the median of 10.2 percent and that 10.5 percent is very conservative.
6 My recommended 10.5 percent return on equity ("ROE") recommendation
7 balances my judgment about the degree of financial and business risk associated
8 with an investment in LDO.

9 **B. Summary of the Staff Recommendations**

10 **Q. PLEASE SUMMARIZE THE RECOMMENDATIONS OF STAFF FOR**
11 **THE RATE OF RETURN ON FAIR VALUE RATE BASE.**

12 **A.** Staff is recommending a capital structure consisting of 21.0 percent debt and 79.0
13 percent equity.² Staff is also recommending a cost of equity of 9.3 percent based
14 on the average cost of equity produced by its DCF models, a financial risk
15 adjustment, and an economic assessment adjustment (EAA).³ Staff is also
16 recommending a cost of debt of 4.6 percent.⁴ Staff used a sample of seven publicly
17 traded water utilities; six of which are the same as those I used in my analysis.⁵
18 Staff did not consider firm size or firm-specific risks in its analysis. Based on its
19 capital structure recommendation, Staff determined the WACC for LDO to be
20 7.9 percent.⁶

21
22
23 ² Direct Testimony of John A. Cassidy ("Cassidy Dt.") at 10.

24 ³ Cassidy Dt. 32.

25 ⁴ Cassidy Dt. 11.

26 ⁵ Staff has added York Water (YORW) to its proxy group.

⁶ Cassidy Dt. at 43.

1 **C. Rebuttal to the Cost of Equity Recommendations of Staff**

2 **Q. STAFF ONLY USED THE DCF MODEL TO ESTIMATE THE COST OF**
3 **EQUITY?**

4 A. Yes. Staff uses two versions of the DCF model - a constant growth DCF and a
5 multi-stage DCF. For unexplained reasons, Staff has not incorporated estimates
6 derived from it CAPM.⁷

7 **Q. IS THE USE OF ONLY ONE METHODOLOGY TO ESTIMATE THE**
8 **COST OF EQUITY APPROPRIATE?**

9 A. No. As Dr. Morin states:

10 Each methodology requires the exercise of considerable
11 judgment on the reasonableness of the assumptions underlying
12 the methodology and on the reasonableness of the proxies used to
13 validate a theory. *The inability of the DCF model to account for*
14 *changes in relative market valuation, discussed below, is a vivid*
15 *example of the potential shortcomings of the DCF model when*
16 *applied to a given company.* Similarly, the inability of the CAPM
17 to account for variables that affect security returns other than
18 beta tarnishes its use. (emphasis added.)

19 No one individual method provides the necessary level of
20 precision for determining a fair return, but each method provides
21 useful evidence to facilitate the exercise of an informed
22 judgment. Reliance on any single method or preset formula is
23 inappropriate when dealing with investor expectations because of
24 possible measurement difficulties and vagaries in individual
25 companies' market data

26 When measuring equity costs, which essentially deals with the
 measurement of investor expectations, no single methodology
 provides a foolproof panacea. Each methodology requires the
 exercise of considerable judgment on the reasonableness of the
 assumptions underlying the methodology and on the
 reasonableness of the proxies used to validate the theory.
 It follows that more than one methodology should be employed
 in arriving at a judgment on the cost of equity and that these
 methodologies should be applied across a series of comparable
 risk companies.⁸

⁷ Cassidy Dt. at 18.

⁸ Roger A. Morin. *New Regulatory Finance*, Public Utility Reports, Inc., 2006, at 428-429.

1 **Q. IS THE DCF A SUPERIOR METHODOLOGY?**

2 A. No. Again, I concur with Dr. Morin who states:

3 While it is certainly appropriate to use the DCF methodology to
4 estimate the cost of equity, there is no proof that the DCF
5 produces a more accurate estimate of the cost of equity than other
6 methodologies. Sole reliance on the DCF model ignores the
7 capital market evidence and financial theory formalized in the
8 CAPM and other risk premium methods. The DCF model is one
9 of many tools to be employed in conjunction with other methods
10 to estimate the cost of equity. *It is not a superior methodology
11 that supplants other financial theory and market evidence.
12 The broad usage of the DCF methodology in regulatory
13 proceedings in contrast to its virtual disappearance in academic
14 textbooks does not make it superior to other methods. The same
15 is true of the Risk Premium and CAPM methodologies.
16 (emphasis added.)*⁹

11 **Q. DOES THE DCF TEND TO UNDERSTATE THE INVESTORS'
12 REQUIRED RETURN?**

13 A. Yes, when the market value of assets is significantly higher or lower than book
14 value, a market-based DCF cost rate applied to the book value of common equity
15 will not produce investors' expected returns. Dr. Morin also provides an
16 explanation for this flaw in the DCF:

17
18 The third reason and perhaps most important for caution and
19 skepticism is that application of the DCF model produces
20 estimates of common equity cost that are consistent with
21 investors' expected return only when stock price and book value
22 are reasonably similar, that is when the market-to-book ratio
23 (M/B) is close to unity. As shown below, application of the
24 standard DCF model to utility stocks understates the investor's
25 expected return when the M/B ratio of a given stock exceeds
26 unity. This was particularly relevant in the capital market
environment of the 1990s and 2000s where utility stocks were
trading at M/B ratios well above unity and have been for nearly
two decades. The converse is also true, that is the DCF model
overstates the investor's return when the M/B ratio is less than
unity. The reason for the distortion is that the DCF market return
is applied to a book value rate base by the regulator, that is, a

⁹ Morin at 431.

1 utility's¹⁰ earnings are limited to earnings on a book value rate
2 base.

3 The understatement/overstatement of investors' required return associated with the
4 application of the market price-based DCF model to the book value of common
5 equity clearly illustrates why reliance upon a single common equity cost rate model
6 should be avoided.

7 **Q. PLEASE COMMENT ON MR. CASSIDY'S DISCUSSION (AT PAGE 26 OF**
8 **HIS DIRECT TESTIMONY) REGARDING THE FINANCIAL**
9 **IMPLICATIONS OF A MARKET-TO-BOOK RATIO OF GREATER**
10 **THAN 1.0.**

11 A. There are a number of reasons investors may bid up market prices for stocks above
12 book values, other than an expectation that a water utility will earn more than its
13 cost of equity. One reason is that investors may expect a city or some other public
14 entity to condemn all or part of a water utility, meaning the municipality will
15 acquire the assets at the fair market value. Water utilities typically have assets that
16 have a value based on reproduction cost that is well in excess of book value,
17 and investors would be aware that a condemnation award could be well in excess
18 of book values, even if the utility earns no more than its cost of equity.

19 Second, investors may anticipate a merger or acquisition that produces
20 premium prices. With such anticipated sale prices well above book values, a water
21 utility would also be priced above book value even if the water utility made no
22 more than its cost of equity. There are other reasons as well. These include:
23 (1) public utility commissions do not issue orders simultaneously in all
24 jurisdictions, (2) not all of a company's earnings are regulated, (3) regulatory
25

26 ¹⁰ Morin at 434.

1 expenses, revenue and rate base adjustments may cause accounting returns to differ
2 from those calculated on a rate case basis, (4) actual sales do not equal sales
3 assumed in a rate case, (5) market expected ROEs change frequently while rate-
4 case authorized ROEs do not, and (6) regulated subsidiaries constitute only a piece
5 of a holding company pie.

6 The argument that utilities are earning more than their cost of capital
7 because the market-to-book ratio is greater than 1.0 is superficial. There is ample
8 evidence that for at least a decade now, regulated water utilities in Arizona have
9 not been earning their costs of service, let alone over earning. Mr. Cassidy's claim
10 - that one would expect market forces to move the stock price lower, close to a
11 market-to-book ratio of 1.0, to reflect investor expectations of reduced expected
12 future cash flows, is also flawed. Mr. Cassidy has ignored many of the things of
13 importance to investors and why it is reasonable to expect market-to-book ratios to
14 exceed 1.0 even if water utilities are expected to earn no more than their costs of
15 equity. If regulators were to force the market-to-book ratios to 1.0 by intentionally
16 lowering the allowed returns, such action would place utilities at a disadvantage in
17 competing for investment capital with industrials and other unregulated companies,
18 whose stock trades well above book value.

19 **Q. PLEASE COMMENT ON STAFF'S ECONOMIC RISK ASSESSMENT,**
20 **OR EAA.**

21 **A.** I can't, at least not in any meaningful way. Staff does not really explain the basis
22 for this adjustment in its testimony except to say that its EAA reflects the uncertain
23 status of the economy and the market.¹¹ But Staff provides no analysis, study or
24 authoritative reference upon which Mr. Cassidy's judgment rests for me to
25

26 ¹¹ Cassidy Dt. at 32.

1 consider. Of course, I agree with Staff that the current economic environment
2 supports increased ROEs. Interest rates have risen in the past year and are
3 expected to increase as the FED curtails its easy money policies. That said, I have
4 just never seen an adjustment of this type from Staff or anyone else until recently.
5 When economic conditions were far worse a few years ago, Staff never advanced
6 an EAA. I am left a bit perplexed by the whole thing, but my skepticism, and the
7 fact that the EAA has popped into existence out of nowhere, leads me to conclude
8 that it is an ill-considered band-aid to cover up an unreasonably low ROE.
9 Recall that without the EAA, Staff's ROE model would be only 8.7 percent
10 (9.3 percent average of Staff's models less EAA of 60 basis points).¹²

11 **Q. HOW DOES STAFF'S RECOMMENDATION COMPARE TO OTHER**
12 **FORECASTS OF COMMON EQUITY RETURNS AND CURRENTLY**
13 **AUTHORIZED RETURNS?**

14 A. It is much lower. *Value Line*, a reputable publication used by cost of capital
15 witnesses for both parties, publishes forecasts of returns on common equity for
16 larger publicly traded companies. Six water utilities are included in my sample
17 group while Staff includes seven. Staff has recently added York Water (YORW) to
18 its proxy group. *Value Line* (January 17, 2014) shows projected returns on equity
19 for those water utilities:

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21 ...
22 ...
23 ...
24 ...

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¹² Cassidy Dt. at 32.

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<u>Company</u>	<u>2013</u>	<u>2014</u>	<u>2016-18</u>
American States Water (AWR)	12.0%	12.5%	11.5%
Aqua America (WTR)	13.0%	13.0%	12.5%
California Water (CWT)	7.5%	9.0%	9.5%
Connecticut Water (CTWS)	9.5%	9.5%	9.0%
Middlesex Water (MSEX)	8.5%	8.5%	9.0%
SJW Corp. (SJW)	8.5%	8.5%	8.5%
York Water. (YORW)	<u>9.5%</u>	<u>11.5%</u>	<u>11.0%</u>
Averages	9.8%	10.4%	10.1%

Furthermore, the currently *authorized* ROE's for the sample water utility companies as reported by AUS Utility Reports (January 2014) average 10.03 percent. They are as follows:

<u>Company</u>	
American States Water (AWR)	9.99%
Aqua America (WTR)	10.29%
California Water (CWT)	9.99%
Connecticut Water (CTWS)	9.75%
Middlesex Water (MSEX)	10.15%
SJW Corp. (SJW)	9.99%
York Water. (YORW)	<u>NM</u>
Average	10.03%

1 Q. WHAT CONCLUSIONS CAN BE DRAWN FROM THE RETURN DATA
2 YOU JUST PRESENTED, MR. BOURASSA?

3 A. For one, they are all much higher than the Staff returns produced by their models,
4 before any consideration of financial risk or other risks. For another, since we are
5 applying a return to a book value rate base, book equity returns have relevance.
6 In fact, if we are to meet the comparable earnings standards set forth in *Hope* and
7 *Bluefield*, then a comparison to book returns is an essential element. These utilities
8 rates will be in effect during approximately the same time period as LDO. Yet, if
9 the Staff ROE is adopted, LDO will be allowed to earn much less, failing the *Hope*
10 *and Bluefield* standard.

11 Q. IS IT YOUR VIEW THAT LDO'S ROE IS HIGHER THAN THE
12 PUBLICLY TRADED UTILITIES?

13 A. Yes. My recommendation in the instant case is 30 basis points higher than the
14 mid-point of my cost of equity estimates. LDO has 5 times more business risk than
15 the publicly traded water utilities, has a much higher operating leverage, is less
16 diverse, and has limited financial flexibility.¹³ Further, since LDO is not publicly
17 traded, an investment in LDO is illiquid compared to an investment in a publicly
18 traded company and therefore has greater liquidity risk and a higher cost of capital.
19 The 30 basis points difference is actually conservative given the risks associated
20 with an investment in LDO.

21 ...

22 ...

23 ...

24 ...

25

26

¹³ Bourassa COC Dt. at 25-27.

1 **D. Responses to Staff's Criticisms of the Company's Cost of Capital**
2 **Analysis**

3 **Q. MR. CASSIDY ALSO CRITICIZES YOU (ON PAGE 34 OF HIS DIRECT**
4 **TESTIMONY) FOR RELYING EXCLUSIVELY ON ANALYSTS**
5 **FORECASTS OF EPS GROWTH IN THE DCF MODEL. IS THIS TRUE?**

6 A. No. I rely on both historical growth rates *and* forecasts of growth. For the
7 historical growth rates, I use historical per share price growth, historical BVPS
8 growth, historical EPS growth, and historical DPS growth.¹⁴ For the forecast
9 growth rate, I used long-term analyst estimates of EPS growth.¹⁵ I just give more
10 weight to the analyst forecasts of growth. It is important to note that Mr. Cassidy
11 disagrees with the additional weight I give the analyst forecasts, but he is not
12 saying these forecasts have no merit, nor did I rely solely on analyst forecasts of
13 growth. The dispute between Mr. Cassidy and me comes down to something
14 between 50 percent and my "greater" emphasis. In my direct testimony I explained
15 why a weight greater than 50 percent should be given to analysts' estimates.¹⁶

16 **Q. ARE ANALYSTS' FORECASTS OF GROWTH "OVERLY OPTIMISTIC"**
17 **FOR UTILITIES?**

18 A. Not according to Gordon, Gordon and Gould who found that analyst estimates are
19 the best proxies for DCF growth when estimating the cost of equity for utilities
20 using the DCF.¹⁷ But the level of accuracy of analysts' forecasts is an after-the-fact
21 evaluation with little relevance to the issues at hand here. As Dr. Morin explains:

22
23
24 ¹⁴ Bourassa COC Dt. at 35.

25 ¹⁵ *Id.*

26 ¹⁶ Bourassa COC Dt. at 31.

¹⁷ Bourassa COC Dt. at 30 – 31.

1 Because of the dominance of institutional investors and their
2 influence on individual investors, analysts' forecasts of long-run
3 growth rates provide a sound basis for estimating required
4 returns. Financial analysts exert a strong influence on the
5 expectations of many investors who do not possess the resources
6 to make their own forecasts, that is, they are a cause of g.
7 *The accuracy of these forecasts in the sense of whether they turn*
8 *out to be correct is not at issue here, as long as they reflect*
9 *widely held expectations. As long as the forecasts are typical*
10 *and/or influential in that they are consistent with current stock*
11 *price levels, they are relevant. The use of analysts' forecasts in*
12 *the DCF model is sometimes denounced on the grounds that it is*
13 *difficult to forecast earnings and dividends for only one year, let*
14 *alone for longer time periods. This objection is unfounded,*
15 *however, because it is present investor expectations that are*
16 *being priced; it is the consensus forecast that is embedded in*
17 *price and therefore in required return, and not the future as it*
18 *will turn out to be. (emphasis added.)*¹⁸

11 What really matters is that analysts' forecasts strongly influence investors
12 and hence the market prices they are willing to pay for stocks. Analysts' growth
13 rates influence the prices investors will pay for stocks and thus impact the dividend
14 yields. The dividend yields change until the sum of the dividend yield plus the
15 growth rate equals investors' perceived cost of equity. Had the growth forecasts
16 been lower – as Mr. Cassidy suggests they should be – the stock prices would be
17 lower and dividend yields would be higher. But there would not necessarily be any
18 difference in the ultimate estimate of the cost of equity.

19 **Q. HAS MR. CASSIDY OFFERED ANY EVIDENCE THAT INVESTORS DO**
20 **NOT RELY ON ANALYST ESTIMATES?**

21 A. No. Nor does he offer any evidence of the extent investors rely on historical
22 growth or on analyst estimates of future growth. Mr. Cassidy offers no quantitative
23 or conceptual argument to rebut the conclusions of Gordon, Gordon, and Gould
24 (cited in my direct¹⁹), and offers no evidence that any of the measures of past

25 ¹⁸ Morin at 298.

26 ¹⁹ Bourassa COC Dt. at 35.

1 growth he has used – historical EPS, historical DPS, historical sustainable growth –
2 provide a better forecast of future growth for utilities than analysts’ estimates of
3 growth.

4 **Q. DO YOU HAVE EVIDENCE THAT THE GROWTH FORECASTS USED**
5 **BY STAFF ARE SIGNIFICANTLY UNDERSTATED?**

6 A. Yes. The 3-year historical annualized total return for the water utility stocks
7 reported by *Value Line* (February 7, 2014) is 11.9 percent.²⁰ This indicated return
8 would imply a growth rate for the DCF model of 9.0 percent.²¹ Compare this to
9 Staff’s 5.2 percent growth rate as shown on Staff Schedule JAC-3. Even the
10 growth rate based on analyst estimates that I use – 6.07 percent as shown on
11 Schedule D-4.8 – falls far short of the implied growth rate investors have realized
12 over the past 3 years. What this shows is that when using forecasts of earnings
13 growth, the indicated cost of equity can vastly understate the cost of equity.

14 **Q. PLEASE RESPOND TO MR. CASSIDY’S TESTIMONY (ON PAGE 39 OF**
15 **HIS DIRECT) THAT USE OF THE HISTORICAL STOCK PRICE**
16 **GROWTH IS INAPPROPRIATE PROXY FOR THE GROWTH RATE IN**
17 **THE DCF MODEL.**

18 A. As I explained in my direct testimony at page 33, using the average historical
19 growth in the stock price is reasonable because investors know that, in equilibrium,
20 common stock prices, book value per share (“BVPS”), earnings per share (“EPS”)
21 and dividends per share (“DPS”) will all grow at the same rate. Investors would
22 take information about changes in stock prices into account when they price
23

24 ²⁰ A stock’s total return is the percentage increase in the value of a shareholder’s
investment, assuming reinvestment of all dividends and adjusted for any stock splits.

25 ²¹ Solving the DCF model as set forth in Mr. Bourassa’s Direct Testimony at page 31
yields $g = k - D_1/P_0$. Substituting Staff’s dividend yield of 2.9 for D_1/P_0 and the
26 11.8 percent for k we get: $g = 9.0 = 11.8 - 2.9$.

1 utilities' stocks. The traditional DCF model assumes that the stock price, book
2 value, dividends, and earnings all grow at the same rate. This has not been
3 historically true for the sample water utility companies.²² So, using the historical
4 growth in stock prices is an appropriate proxy measure for growth.

5 **Q. DOESN'T STAFF TYPICALLY USE 3-5 YEAR PRICE APPRECIATION**
6 **POTENTIAL AS A GROWTH PROXY FOR THE DCF WHEN**
7 **ESTIMATING THE CURRENT MARKET RISK PREMIUM FOR THE**
8 **CAPM?**

9 A. Yes, in my experience. Staff has used the Value Line projected 3-5 year per share
10 growth, which is Value Line's 3-5 year stock price appreciation in estimating the
11 current market risk premium for the CAPM.²³ Mr. Cassidy is criticizing me for
12 something Staff has done on a regular basis in the past.

13 **Q. PLEASE COMMENT ON MR. CASSIDY'S TESTIMONY (AT PAGE 41)**
14 **CRITICIZING YOU FOR CONSIDERING THE DIFFERENCES IN RISK**
15 **DUE TO THE SIZE OF LDO COMPARED TO THE PUBLICLY TRADED**
16 **SAMPLE UTILITIES.**

17 A. I have not made a specific size adjustment for LDO, rather, I have pointed out the
18 differences in risk stemming from LDO's higher business risk, operating leverage,
19 and liquidity. My 30 basis point "premium" is conservative given the risks of an
20 investment in LDO. That said, Mr. Cassidy does not dispute that smaller
21 companies are more risky than larger companies.²⁴

22
23
24 ²² Bourassa COC Dt. at 31.

25 ²³ See *Rio Rico Utilities, Inc.*, Docket No. WS-02676A-12-02196; *Litchfield Park Service*
Company, Docket No. SW-01428A-13-0042, et al.; *Payson Water Co., Inc.*, W-03514A-
13-0111.

26 ²⁴ Cassidy Dt. at 41.

1 Q. TO REBUT ANY IMPACT OF SIZE, MR. CASSIDY REFERENCES A
2 STUDY BY ANNIE WONG (AT PAGE 41). ARE YOU FAMILIAR WITH
3 THIS STUDY?

4 A. I sure am. Over the past 10 plus years or so Staff's witnesses have repeatedly
5 trotted out this one study to refute the notion that utilities like LDO are more risky
6 than the proxy companies because they are considerably and significantly smaller.
7 Mr. Cassidy has done so at least one other time, and in that case, he admitted on
8 cross examination that he had never read Ms. Wong's actual paper, wasn't even
9 sure what kind of paper it was (he thought it might be her doctoral thesis), and did
10 not know whether it had ever been published.²⁵ Mr. Cassidy also stated that he was
11 unaware of any other person that had published a similar conclusion.²⁶ I do not
12 know what else Ms. Wong has done since, but I suspect this item of Ms. Wong's
13 work, and its questionable conclusions, have found no greater audience than at
14 public utility commissions where some party is trying to justify an unreasonably
15 low ROE for a utility that is not publicly traded.

16 Q. HAS MS. WONG DISPROVED THE EXISTENCE OF A SIZE PREMIUM
17 FOR SMALL UTILITY STOCKS?

18 A. No. Actually, Ms. Wong's study has been criticized soundly: "[her] weak evidence
19 provides little support for a small firm effect existing or not existing in either the
20 industrial or the utility sector."²⁷ Dr. Zepp found that Ms. Wong's empirical results
21 were not strong enough to conclude that beta risk of utilities is unrelated to size; he
22 found that her use of monthly, weekly, and daily data may be the cause of her
23 inability to find a relationship; and he found other studies that show trading

24 ²⁵ Transcript from March 28, 2013 hearing at 237:18 – 239:8, *Rio Rico Utilities, Inc.*

25 ²⁶ *Id.* 238:13-20

26 ²⁷ Thomas M. Zepp, "Utility Stocks and the Size Effect – Revisited," *The Quarterly Review Economics and Finance*, Vol. 43, Issue 3, Autumn 2003, 578-582.

1 infrequency to be a powerful cause of bias in beta risk when time intervals of a
2 month or less are used to estimate beta's for small stocks.²⁸ The studies relied on
3 in Mr. Zepp's published paper found, "when a stock is thinly traded, its stock price
4 does not reflect the movement of the market, which drives down the covariance
5 with the market and creates an artificially low beta estimate."²⁹ Thus, Ms. Wong's
6 weak results were due to a flawed analysis.

7 **Q. DON'T PASCHALL AND HAWKINS (QUOTED BY MR. CASSIDY ON**
8 **PAGE 42) SUPPORT MS. WONG AND MR. CASSIDY'S VIEW THAT**
9 **SMALLER WATER UTILITIES ARE NOT MORE RISKY THAN**
10 **LARGER WATER UTILITIES?**

11 **A.** No, the authors do not argue against a small company risk premium for small water
12 utilities. Instead, they merely suggest that the small company risk premium may be
13 lower than the average company for the reasons they state.³⁰ A very low risk
14 premium for LDO compared to the average company is exactly what I recommend
15 in this case.

16 According to the empirical financial market data provided by Morningstar,
17 the indicated size premium for a company the size of LDO would be 11.77 percent
18 over the average company the size of LDO.³¹ A size premium analysis provided in
19 **Exhibit TJB-COC-RB1** indicates a size premium in the range of 99 to 377 basis
20 points over the water proxy group. My recommended risk premium is just 30 basis
21 points, which is about 2.5 percent of the indicated small company risk premium for
22 an average company the size of LDO based on Morningstar data, and well below

23 ²⁸ *Id.* at 579.

24 ²⁹ *Id.*

25 ³⁰ Micheal A. Paschall and George B. Hawkins, "Do Smaller Companies Warrant a
Higher Discount Rate for Risk": The Size Effect' Debate," *CCH Business Valuation*
Alert, Vol 1, Issue No. 2, December 1999.

26 ³¹ Morningstar *Ibbotson SBBi 2013 Valuation Yearbook*. Table 7-8, Decile 10z.

1 the bottom end of the range of the indicated additional risk premium over my water
2 proxy group. Therefore, I think Paschall and Hawkins support my analysis not
3 Mr. Cassidy's. That's true with respect to both, whether size matters, and, whether
4 my recommended 10.5 is conservative.

5 **Q. DO YOU FIND ANY FURTHER SUPPORT IN PASCHALL AND**
6 **HAWKINS?**

7 A. Yes, as a matter of fact, I do. One of the main points of the authors' discussion
8 was that the use of small company risk premium without consideration of the
9 specific risks of the subject company could be subject to challenge. Recognition of
10 the additional risk associated with an investment in LDO compared to his water
11 proxy group is something Mr. Cassidy fails to do.

12 That said, a great deal of my direct testimony and parts of my rebuttal
13 testimony were devoted to comparing the differences between the large publicly
14 traded company and LDO that would reflect differences in risk, which is exactly
15 what the authors would recommend. As Paschall and Hawkins conclude:

16
17 Failing to consider the additional risk associated with most
18 smaller companies, however, is to fail to acknowledge reality.
19 Measured properly, small company stocks have proven to be
20 more risky over a long period of time than have larger
21 company stock. This makes sense due to the various
22 advantages that larger companies have over smaller
23 companies. Investors looking to purchase a riskier company
24 will require a greater return on investment to compensate for
25 that risk.³²

22 ...
23 ...
24 ...

26 ³² Paschall *supra*.

1 Q. DO PASCHALL AND HAWKINS REFERENCE ANY STUDIES TO
2 SUPPORT THE PROPOSITION THAT A PRIVATELY HELD SMALL
3 WATER UTILITY HAS THE SAME RISK AS A LARGE PUBLICLY
4 TRADED UTILITY?

5 A. No.

6 Q. ARE THERE ANY STUDIES THAT CONTRADICT MS. WONG'S
7 FINDINGS?

8 A. Yes, besides basic business sense, I am aware of two other studies that support the
9 conclusion that small utilities are more risky than larger utilities. The first, a study
10 conducted by the California Public Utilities Commission ("CPUC") looked at
11 58 water utilities.³³ Based on that study, the CPUC Staff concluded that smaller
12 water utilities are more risky and required higher equity returns than larger water
13 utilities. This position was adopted by the CPUC.³⁴ A second study, conducted by
14 Dr. Zepp, showed that on average, the smaller water utilities in his study had a
15 99 basis point higher cost of equity.³⁵ In short, Ms. Wong's now 20 year-old study
16 of unknown providence, should be given little to no weight in these proceedings.

17 Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY ON COST OF
18 CAPITAL?

19 A. Yes.

20

21

22

23

24

25

26

³³ *Id.* at 580.

³⁴ *Zepp, supra.*

³⁵ *Id.*

EXHIBIT
TJB-COC-RB1

Lago Del Oro Water Company
Size Premium¹

Exhibit

Line No.	Beta(β)	Size Premium	Risk Premium for Small Water Utilities ⁷
1			
2			
3			
4			
5			
6	1.19	1.51%	
7			
8	1.30	2.31%	
9			
10	1.43	4.36%	
11			
12	1.48	6.63%	3.77%
13			
14			
15			
16			
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41			

Estimated Risk Premium for small water utilities⁸

Risk Premium for Small Water Utilities ⁷
0.99%

¹ Data from Table 7-10 of Morningslar, Ibbotson SBBJ 2013 Valuation Yearbook
² Mid-Cap companies includes companies with market capitalization between \$1,912 million and \$7,687 million.
³ Low-Cap companies includes companies with market capitalization between \$514 million and \$1,909 million.
⁴ Micro-Cap companies includes companies with market capitalization less than \$514 million.
⁵ Decile 10 includes companies with market capitalization between \$1.14 million and \$254 million.
⁶ From Table 2, Thomas M. Zepp, "Utility Stocks and the Size Effect Revisited," *The Quarterly Review of Economics and Finance*, 43 (2003), 578-582.
⁷ Computed as the weighted differences between the Decile 10 risk premium and the indicated risk premiums for the sample water utilities as shown below. Excludes risk due to differences in beta.

Market Cap.	(Millions)	Class	Size Premium	Difference to Decile 1	Weight	Weighted Size Premium
1.	\$ 1,084	Low-Cap	2.31%	4.32%	0.166666667	0.72%
2.	\$ 4,150	Mid-Cap	1.51%	5.12%	0.166666667	0.85%
3.	\$ 939	Low-Cap	2.31%	4.32%	0.166666667	0.72%
4.	\$ 371	Micro-Cap	4.36%	2.27%	0.166666667	0.38%
5.	\$ 328	Micro-Cap	4.36%	2.27%	0.166666667	0.38%
6.	\$ 526	Low-Cap	2.31%	4.32%	0.166666667	0.72%
Average			2.86%			3.77%

D SCHEDULES

Proforma Capital Structure

Line No.	Item of Capital	Dollar Amount	Percent of Total	Cost Rate	Weighted Cost
1	Long-Term Debt	\$ 2,751,411	29.00%	4.60%	1.33%
3	Stockholder's Equity	6,740,138	71.00%	10.50%	7.46%
5	Totals	\$ 9,491,549	100.00%		8.79%

SUPPORTING SCHEDULES:

- 23 D-1
- 24 D-3
- 25 D-4
- 26 E-1
- 27 Testimony
- 28
- 29
- 30

Lago Del Oro Water Company
Test Year Ended December 31, 2012
Cost of Common Equity

Exhibit
Rebuttal Schedule D-4
Page 1
Witness: Bourassa

Line
No.

1		
2	The Company is proposing a cost of common equity of	10.50% .
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
18	E-1	D-1
19	D-4.1 to D-4.16	
20		

Lago Del Oro Water Company
 Summary of Results

Exhibit
 Rebuttal Schedule D-4.1
 Witness: Bourassa

Line No.	Method	Median Result
1		
2		
3		
4		
5		
6	DCF Constant Growth Estimates ¹	9.0%
7		
8	Historical CAPM Estimates ²	8.6%
9		
10	Build-up Method Estimates ³	11.4%
11		
12	Mid-point	10.2%
13		
14		
15		
16	Recommended Cost of Equity ⁴	10.5%
17		
18		

¹ See Rebuttal Schedule D-4-8
² See Rebuttal Schedule D-4.12
³ See Rebuttal Schedule D-4.18
⁴ Testimony

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23

Lago Del Oro Water Company
Selected Characteristics of Sample Group of Water Utilities

Exhibit
Rebuttal Schedule D-4.2
 Witness: Bourassa

Line No.	Company ¹	% Water Revenues	Operating Revenues (millions)	Net Plant (millions)	S&P Bond Rating	Moody's Bond Rating	Allowed ROE (%)
1	1. American States	60%	\$ 474.6	\$ 968.5	A+	A2	9.99
2	2. Aqua America	89%	\$ 767.5	\$ 4,090.4	AA-	NR	10.29
3	3. California Water	100%	\$ 571.9	\$ 1,505.2	AA-	NR	9.99
4	4. Connecticut Water	97%	\$ 89.4	\$ 461.8	A	NR	9.75
5	5. Middlesex	89%	\$ 114.5	\$ 442.8	A	NR	10.15
6	6. SJW Corp.	96%	\$ 272.1	\$ 860.4	A	NR	9.99
10	Average	89%	\$ 381.7	\$ 1,388.2			10.03
11							
12							
13	Lago Del Oro Water Company	100%	\$ 1.9	\$ 9.4	NR	NR	
14	(Adjusted as of December 31, 2012)						
15							
16							
17							
18							
19							
20							
21							
22							
23							
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25							

¹AUS Utility Reports (January 2014).

**Lago Del Oro Water Company
Capital Structures**

**Exhibit
Rebuttal Schedule D-4.3
Witness: Bourassa**

No.	Company	Book Value ¹		Market Value ¹	
		Long-Term Debt	Common Equity	Long-Term Debt	Common Equity
1	1. American States	42.3%	57.7%	23.5%	76.5%
2	2. Aqua America	52.7%	47.3%	27.1%	72.9%
3	3. California Water	47.8%	52.2%	31.6%	68.4%
4	4. Connecticut Water	49.2%	50.8%	32.5%	67.5%
5	5. Middlesex	42.0%	58.0%	28.6%	71.4%
6	6. SJW Corp.	55.0%	45.0%	38.9%	61.1%
10	Average	48.2%	51.8%	30.4%	69.6%
13	Lago Del Oro Water Company (Proforma)	21.0%	79.0%	N/A	N/A

¹ Value Line Analyzer Data (February 7, 2014)

² Adjusted Per Rebuttal Schedule D-1

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Lago Del Oro Water Company
Comparisons of Past and Future Estimates of Growth

Line No.	[1]	[2]	[3]	[4]	[5]	[6]	[7]
	<u>Ten-year historical average annual changes</u>						
	<u>Price</u> ¹	<u>Book Value</u> ²	<u>EPS</u> ²	<u>DPS</u> ²	<u>Average Col 1-4</u>	<u>Average Future Growth</u> ³	<u>Average of Future and Historical Growth Col 5-6</u>
1.	American States	10.41%	5.00%	6.50%	3.00%	6.23%	4.78%
2.	Aqua America	7.70%	8.50%	7.00%	7.50%	7.68%	7.40%
3.	California Water	6.27%	5.00%	5.00%	1.00%	4.32%	5.33%
4.	Connecticut Water	4.80%	4.50%	1.50%	1.50%	3.07%	4.29%
5.	Middlesex	5.14%	4.50%	3.50%	1.50%	3.66%	3.50%
6.	SJW Corp.	6.99%	5.50%	4.00%	5.00%	5.37%	8.06%
	GROUP AVERAGE	6.88%	5.50%	4.58%	3.25%	5.05%	5.56%
	GROUP MEDIAN	6.63%	5.00%	4.50%	2.25%	4.84%	5.05%

¹ Average of changes in annual stock prices ending December 31, 2012. Data from Yahoo Finance website.

² Value Line Analyzer Data, February 7, 2014.

³ See Rebuttal Schedule D-4.6.

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28

Lago Del Oro Water Company
 Analysts Forecasts of Earnings Per Share Growth

Exhibit
 Rebuttal Schedule D-4.6
 Witness: Bourassa

Line No.	[1]	[2]	[3]	[4]
6	ESTIMATES OF EARNINGS GROWTH			
	<u>Company</u>	<u>Yahoo</u> ¹	<u>Zacks</u> ¹	<u>Line</u> ¹
7	1. American States	1.00%	2.00%	7.00%
8	2. Aqua America	5.80%	5.60%	10.00%
9	3. California Water	6.00%	6.00%	7.00%
10	4. Connecticut Water	5.00%	5.00%	6.50%
11	5. Middlesex	2.70%		4.00%
12	6. SJW Corp.	14.00%		7.50%
15	GROUP AVERAGE	5.75%	4.65%	7.00%
16	GROUP MEDIAN			
17				
18				
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20				
21				
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24				
25				
26				
27				
28				
				Average Growth (G) (Cols 1-3) ²
				3.33%
				7.13%
				6.33%
				5.50%
				3.35%
				10.75%
				6.07%
				5.92%

¹ Data as of February 7, 2014

² Where no data available or single estimate, average of other utilities assumed to estimate for utility.

Lago Del Oro Water Company
 Current Dividend Yields for Water Utility Sample Group

Line No.	Company	Average Stock Price (P ₀) ¹	Current Dividend (D ₀) ¹	Current Dividend Yield (D ₀ /P ₀) ¹	Average Annual Dividend Yield (D ₀ /P ₀) ^{1,2}
1	1. American States	\$ 28.16	\$ 0.86	3.05%	3.15%
2	2. Aqua America	\$ 23.66	\$ 0.64	2.71%	2.80%
3	3. California Water	\$ 22.35	\$ 0.68	3.04%	3.36%
4	4. Connecticut Water	\$ 34.06	\$ 0.99	2.91%	3.62%
5	5. Middlesex	\$ 20.75	\$ 0.76	3.66%	3.96%
6	6. SJW Corp.	\$ 28.15	\$ 0.75	2.66%	2.95%
13	Average			3.01%	3.31%
14	Median			2.97%	3.26%

¹ Yahoo Finance. 60 day average of stock prices as of February 7, 2014.

² Average Annual Dividend is dividends declared per share for a year divided by the average annual price of the stock in the same year, expressed as a percentage. For comparison purposes only.

Lago Del Oro Water Company
 Discounted Cash Flow Analysis
 DCF Constant Growth

Exhibit
 Rebuttal Schedule D-4.8
 Witness: Bourassa

Line No.	[1] Dividend Yield (D_0/P_0) ¹	[2] Expected Dividend Yield (D_1/P_0) ²	[3] Growth (g)	[4] Indicated Cost of Equity $k = \text{Div Yld} + g$ (Cols 2+3)
8	DCF - Past and Future Growth	3.01%	5.55% ³	8.7%
10	DCF - Future Growth	3.01%	6.07% ⁴	9.3%
13	Average	3.01%	5.81%	9.0%
15	Median	3.01%	5.81%	9.0%

1 Spot Dividend Yield = D_0/P_0 . See Rebuttal Schedule D-4.7.

2 Expected Dividend Yield = $D_1/P_0 = D_0/P_0 * (1+g)$.

3 Growth rate (g). Average of Past and Future Growth. See Rebuttal Schedule D-4.4, column 7

4 Growth rate (g). Average of Analyst Estimates Future Growth. See Rebuttal Schedule D-4.6.

Lago Del Oro Water Company
Market Betas

Exhibit
Rebuttal Schedule D-4.9
Witness: Bourassa

Line No.	Company	Beta (B) ¹
1	American States	0.65
2	Aqua America	0.60
3	California Water	0.60
4	Connecticut Water	0.75
5	Middlesex	0.75
6	SJW Corp.	0.85
7		
8		
9	Average	0.70
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		

¹ Value Line Investment Analyzer data (February 7, 2014)

Note: Beta is a relative measure of the historical sensitivity of a stock's price to overall fluctuations in the New York Stock Exchange Composite Index. A Beta of 1.50 indicates a stock tends to rise (or fall) 50% more than the New York Stock Exchange Composite Index. The "Beta coefficient" is derived from a regression analysis of the relationship between weekly percent-age changes in the price of a stock and weekly percentage changes in the NYSE Index over a period of five years. In the case of shorter price histories, a smaller time period is used, but two years is the minimum. The Betas are adjusted for their long-term tendency to converge toward 1.00.

Lago Del Oro Water Company
 Forecasts of Long-Term Interest Rates

Exhibit
 Rebuttal Schedule D-4.10
 Witness: Bourassa

Line No.	Description	Fed Reserve Average Jan 14	2015	2016	Average
1					
2					
3					
4					
5					
6	Blue Chip Consensus Forecasts ¹	3.77%	4.30%	4.40%	4.20%
7					
8	Value Line ²	3.77%	4.30%	4.70%	4.30%
9					
10	Average				4.25%
11					
12					
13					
14					

¹ Dec 2013 Blue Chip Financial Forecasts consensus long-term forecast of 30 Year U.S. Treasury

² Value Line Quarterly forecast, dated Nov 22, 2013, Long-term Treasury

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16
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Exhibit
Rebuttal Schedule D-4.11
Witness: Bourassa

Lago Del Oro Water Company
Computation of Current Market Risk Premium

Line No.	Month	Dividend Yield ($D_t/P_{0,t}$) ¹	Expected Dividend Yield ($D_t/P_{0,t}$) ²	Growth (g_t) ³	Expected Market Return (k)	Monthly Average 30 Year Treasury Rate ⁴	Market Risk Premium (MRP)
1							
2							
3							
4	Dec 2011	2.27%	2.60%	+ 14.52%	= 17.12%	= 2.98%	= 14.14%
5	Jan 2012	2.19%	2.45%	+ 11.76%	= 14.21%	= 3.03%	= 11.18%
6	Feb	2.18%	2.46%	+ 12.82%	= 15.28%	= 3.11%	= 12.17%
7	Mar	2.24%	2.54%	+ 13.51%	= 16.05%	= 3.28%	= 12.77%
8	April	2.19%	2.47%	+ 12.99%	= 15.46%	= 3.18%	= 12.28%
9	May	2.41%	2.78%	+ 15.26%	= 18.04%	= 2.93%	= 15.11%
10	June	2.37%	2.70%	+ 14.02%	= 16.72%	= 2.70%	= 14.02%
11	July	2.45%	2.82%	+ 15.18%	= 18.00%	= 2.59%	= 15.41%
12	Aug	2.35%	2.67%	+ 13.51%	= 16.18%	= 2.77%	= 13.41%
13	Sept	2.29%	2.57%	+ 12.29%	= 14.86%	= 2.88%	= 11.98%
14	Oct	2.36%	2.67%	+ 13.16%	= 15.83%	= 2.90%	= 12.93%
15	Nov	2.31%	2.59%	+ 12.29%	= 14.88%	= 2.80%	= 12.08%
16	Dec 2012	2.22%	2.45%	+ 10.48%	= 12.93%	= 2.88%	= 10.05%
17	Jan 2013	2.16%	2.37%	+ 9.92%	= 12.29%	= 3.08%	= 9.21%
18	Feb	2.24%	2.49%	+ 11.22%	= 13.71%	= 3.17%	= 10.54%
19	Mar	2.17%	2.39%	+ 9.92%	= 12.31%	= 3.16%	= 9.15%
20	April	2.11%	2.31%	+ 9.44%	= 11.75%	= 2.93%	= 8.82%
21	May	2.07%	2.26%	+ 8.97%	= 11.22%	= 3.11%	= 8.11%
22	June	2.14%	2.35%	+ 9.73%	= 12.08%	= 3.40%	= 8.68%
23	July	2.02%	2.18%	+ 7.79%	= 9.97%	= 3.61%	= 6.36%
24	Aug	2.14%	2.33%	+ 8.97%	= 11.30%	= 3.76%	= 7.54%
25	Sept	2.10%	2.27%	+ 8.00%	= 10.27%	= 3.79%	= 6.48%
26	Oct	2.00%	2.14%	+ 7.19%	= 9.33%	= 3.68%	= 5.65%
27	Nov	1.99%	2.13%	+ 6.98%	= 9.11%	= 3.80%	= 5.31%
28	Dec 2013	1.93%	2.05%	+ 6.16%	= 8.21%	= 3.89%	= 4.32%
29	Jan 2014	2.01%	2.15%	+ 6.78%	= 8.93%	= 3.77%	= 5.16%
30							
31							
32	Recommended	2.03%	2.18%	+ 7.35%	= 9.52%	= 3.78%	= 5.74%
33							
34	<u>Short-term Trends</u>						
35	Recent Twelve Months Avg	2.08%	2.25%	+ 8.43%	= 10.68%	= 3.51%	= 7.18%
36	Recent Nine Months Avg	2.04%	2.21%	+ 7.84%	= 10.05%	= 3.65%	= 6.40%
37	Recent Six Months Avg	2.03%	2.18%	+ 7.35%	= 9.52%	= 3.78%	= 5.74%
38	Recent Three Months Avg	1.98%	2.11%	+ 6.64%	= 8.75%	= 3.82%	= 4.93%
39							
40							

¹ Median Current Dividend Yield ($D_t/P_{0,t}$) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks
² Expected Dividend Yield ($D_t/P_{0,t}$) equals average current dividend yield ($D_t/P_{0,t}$) times one plus growth rate(g).
³ Median 3-5 year price appreciation (annualized). Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks
⁴ Monthly average 30 year U.S. Treasury. Federal Reserve.

Lago Del Oro Water Company
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
 Based on *Duff and Phelps Risk Premium Study Data*

Exhibit
 Rebuttal Schedule D.4.13
 Witness: Bourassa

Company	Measures of size (Millions)					
	MV Equity ¹	Book Equity ¹	MVIC ¹	5 Yr Avg. Net Income	Total Assets ²	5 Yr Avg. EBITDA ³
American States	\$ 1,084	\$ 454	\$ 1,417	\$ 37	\$ 1,281	\$ 130
Aqua America	\$ 4,150	\$ 1,386	\$ 5,694	\$ 133	\$ 4,859	\$ 422
California Water	\$ 939	\$ 474	\$ 1,373	\$ 41	\$ 1,996	\$ 140
Connecticut Water	\$ 371	\$ 185	\$ 550	\$ 11	\$ 579	\$ 24
Middlesex	\$ 328	\$ 181	\$ 459	\$ 13	\$ 562	\$ 38
SJW Corp.	\$ 526	\$ 275	\$ 862	\$ 21	\$ 1,087	\$ 89
Lago Del Oro Water Company	NA	\$ 9.5	NA	\$ 0.1	\$ 11.1	\$ 0.4

¹ From Zacks Investment Research data

² From Zacks Investment Research. From E-1 for subject utility.

³ Net Income. From Zacks Investment Research and Company ACC reports

Net Income Data (\$ millions)

Company	2012	2011	2010	2009	2008	Average
American States	\$ 54.0	\$ 45.9	\$ 33.2	\$ 29.5	\$ 22.0	\$ 36.9
Aqua America	\$ 197.0	\$ 143.1	\$ 124.0	\$ 104.4	\$ 97.9	\$ 133.3
California Water	\$ 49.0	\$ 37.7	\$ 37.7	\$ 40.6	\$ 39.8	\$ 40.9
Connecticut Water	\$ 14.0	\$ 11.3	\$ 9.8	\$ 10.2	\$ 9.4	\$ 10.9
Middlesex	\$ 14.0	\$ 13.4	\$ 14.3	\$ 10.0	\$ 12.2	\$ 12.8
SJW Corp.	\$ 22.0	\$ 20.9	\$ 24.4	\$ 15.2	\$ 21.5	\$ 20.8
Lago Del Oro Water Company	\$ (0.0)	\$ 0.1	\$ 0.1	\$ 0.2	\$ 0.1	\$ 0.1

Net Income data for publicly traded water utilities from Zacks Investment Research and/or Yahoo Finance

⁴ Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA). From Zacks Investment Research and Company ACC reports.

EBITDA Data (\$ millions)

Company	2012	2011	2010	2009	2008	Average
American States	\$ 154.0	\$ 133.3	\$ 134.4	\$ 122.6	\$ 105.9	\$ 130.0
Aqua America	\$ 439.0	\$ 397.8	\$ 473.2	\$ 415.2	\$ 384.7	\$ 422.0
California Water	\$ 151.0	\$ 143.3	\$ 155.7	\$ 125.5	\$ 122.1	\$ 139.5
Connecticut Water	\$ 30.0	\$ 24.2	\$ 22.5	\$ 20.3	\$ 21.1	\$ 23.6
Middlesex	\$ 39.0	\$ 34.6	\$ 43.3	\$ 34.6	\$ 38.6	\$ 38.0
SJW Corp.	\$ 90.0	\$ 87.1	\$ 75.4	\$ 93.5	\$ 99.7	\$ 89.1
Lago Del Oro Water Company	\$ (0.1)	\$ 0.2	\$ 0.2	\$ 1.0	\$ 0.9	\$ 0.4

EBITDA data for publicly traded water utilities from Zacks Investment Research and/or Yahoo Finance

EBITDA data for subject utility from E-1 and/or ACC reports

Lago Del Oro Water Company
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
 Based on Duff and Phelps Risk Premium Study Data

MRP_{mr+s} Estimates Using Duff & Phelps Study (Unlevered)

Assumes 100% Equity and 0% debt

Data Smoothing with Regression Analysis

Smoothed Premium (RP_{mr+s}) = Constant + X Coefficients * Log(Relevant Metric)

$$RP_{unlevered} = RP_{levered} - W_d W_e (\beta_U - \beta_d) RP_{market}$$

Where β_U = unlevered portfolio beta

β_d = debt beta, assumed to be 0.1

W_d = percentage of debt in capital structure

W_e = percentage of equity in capital structure

RP_{levered} = levered realized risk premium

Constant
 X Coefficient(s)

1. 2. 3. 4. 5. 6.	Company	Symbol	MRP _{mr+s} (unlevered)						Average
			MV Equity (Table C-1)	Book Equity (Table C-2)	MVIC (Table C-4)	5 Yr Avg. Net Income (Table C-3)	Total Assets (Table C-5)	5 Yr Avg. EBITDA (Table C-6)	
	American States	AWR	18.448%	15.453%	18.701%	13.312%	17.363%	14.836%	8.87%
	Aqua America	WTR	-3.193%	-2.533%	-3.173%	-2.600%	-2.793%	-2.717%	7.29%
	California Water	CWT							8.78%
	Connecticut Water	CTWS							10.22%
	Middlesex	MSEX							10.18%
	SJW Corp.	SJW							9.45%
	Average (unlevered)		9.17%	8.94%	8.98%	9.51%	8.68%	9.50%	9.13%
	Lago Del Oro Water Company		NA	12.98%	NA	15.87%	14.44%	15.80%	14.77%

Lago Del Oro Water Company
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
 Based on *Duff and Phelps Risk Premium Study Data*

Exhibit
 Rebuttal Schedule D.4.15
 Witness: Bourassa

Unlevered Portfolio Beta
 (from 2012 Duff & Phelps RP Study - Table C)

	Company	Symbol	Unlevered Portfolio Beta (β_u)						
			(Table C-1)	(Table C-2)	(Table C-4)	(Table C-3)	(Table C-5)	(Table C-6)	Average
1.	American States	AWR	0.94	0.96	0.95	0.95	0.97	0.95	0.95
2.	Aqua America	WTR	0.87	0.89	0.86	0.88	0.83	0.82	0.86
3.	California Water	CWT	0.98	0.96	0.95	0.95	0.94	0.96	0.96
4.	Connecticut Water	CTWS	0.96	0.98	0.97	0.97	0.99	1.03	0.98
5.	Middlesex	MSEX	0.96	1.00	0.98	0.97	0.99	0.99	0.98
6.	SJW Corp.	SJW	0.98	0.98	0.98	0.99	0.97	0.95	0.98
	Average		0.95	0.96	0.95	0.95	0.95	0.95	0.95
	Lago Del Oro Water Company		NA	0.98	NA	1.01	1.05	1.03	1.02

Lago Del Oro Water Company
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
 Based on *Duff and Phelps* Risk Premium Study Data

MRP Estimates Using Duff & Phelps Study (Relevered)

Relevered Realized Risk Premium

$$RP_{\text{relevered}} = RP_{\text{unlevered}} + W_d/W_e \cdot (\beta_e - \beta_d) \cdot RP_{\text{market}}$$

Where β_d = unlevered portfolio beta

β_d = debt beta, assumed to be 0.1

W_d = percentage of debt in capital structure

W_e = percentage of equity in capital structure

$RP_{\text{unlevered}}$ = unlevered realized risk premium from Table 2

RP_{market} = general equity risk premium for the market since 1963.

Exhibit
 Rebuttal Schedule D.4.16
 Witness: Bourassa

	Company	MRP _{mts} (Relevered)									
		WAMA	MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	Average		
1.	American States	30.7%	9.92%	9.91%	9.88%	10.41%	9.88%	10.27%	10.04%		
2.	Aqua America	37.2%	8.18%	8.82%	8.06%	9.09%	8.29%	8.91%	8.56%		
3.	California Water	46.3%	10.79%	10.47%	10.51%	10.89%	9.89%	10.80%	10.56%		
4.	Connecticut Water	48.1%	12.10%	11.62%	11.89%	12.49%	11.57%	13.12%	12.13%		
5.	Middlesex	40.1%	11.97%	11.36%	11.84%	12.00%	11.29%	12.15%	11.77%		
6.	SJW Corp.	63.7%	12.28%	11.80%	11.91%	12.44%	11.38%	11.98%	11.96%		
	Average MRP (Relevered)	44.35%	10.87%	10.66%	10.68%	11.22%	10.38%	11.20%	10.84%		
	Lago Del Oro Water Company	12.18%	NA	13.46%	NA	16.36%	14.96%	16.31%	15.27%		

Lago Del Oro Water Company
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
 Based on *Duff and Phelps Risk Premium Study Data*

Exhibit
 Rebuttal Schedule D.4.17
 Witness: Bourassa

Equity Risk Premium Adjustment and Other metrics used in Build-up Method

[1] Estimate of Current Market Risk Premium (RP_{market})	5.00%	<<<< Current Duff and Phelps recommendation
[2] Risk Premium Assumed in Duff & Phelps Study (1963-2012) ¹	4.50%	
[3] Equity Risk Premium Adjustment ([1] - [2])	0.50%	
[4] Average MRP (relevered) for publicly traded water companies (from Rebuttal Schedule D-4.16)	10.84%	
[5] MRP (relevered) for publicly traded water companies (RP_{m+*}) ([3] + [4])	11.34%	
[6] Equity Risk Premium Adjustment ([3])	0.50%	
[7] Average MRP (relevered) for subject utility company (from Table 4)	15.27%	
[8] MRP (relevered) for subject utility company (RP_{m+*}) ([6] + [7])	15.77%	
[9] Industry Risk Premium (From Ibbotson for SIC 494 Water Supply Industry Table 3-5)	-4.92%	
[10] Adjustment Factor to Industry Risk Premium ([2] / 6.7%) ¹	0.7463	
[11] Adjusted Industry Risk Premium (R_i) ([9] x [10])	-3.67%	
[12] Risk Free Rate (R_f) ²	3.42%	

¹ From Duff and Phelps Risk Premium Report 2013.

² Yield on 20 Yr U.S. Treasury Feb 6, 2014 (Federal Reserve)

Lago Del Oro Water Company
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
 Based on *Duff and Phelps* Risk Premium Study Data

Cost of Equity (COE) Estimate Using Build-up Method

$$E(R_i) = R_f + RP_{m+s} + RP_i + RP_u$$

Where:

$E(R_i)$ = Expected (indicated) rate of return

R_f = Risk-free rate of return. See Rebuttal Schedule D-4.17.

RP_{m+s} = Market risk premium including size premium. See Rebuttal Schedule D-4.16.

RP_i = Industry risk premium (adjusted). See Rebuttal Schedule D-4-17.

RP_u = Company-specific risk premium

Sample Publicly Traded Water Utilities	Lago Del Oro Water Company
	3.42%
	See Sched. D-4.16
	-3.67%
	0.00%

$R_f =$
 $RP_{m+s} =$
 $RP_i =$
 $RP_u =$

Indicated COE $E(R_i)$

	Symbol	Company	MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	Average
1.	AWR	American States	10.16%	10.16%	10.12%	10.66%	10.13%	10.51%	10.29%
2.	WTR	Aqua America	8.43%	9.07%	8.31%	9.34%	8.54%	9.16%	8.81%
3.	CWT	California Water	11.04%	10.72%	10.76%	11.14%	10.14%	11.05%	10.81%
4.	CTWS	Connecticut Water	12.35%	11.86%	12.14%	12.74%	11.82%	13.37%	12.38%
5.	MSEX	Middlesex	12.22%	11.60%	12.09%	12.25%	11.54%	12.40%	12.02%
6.	SJW	SJW Corp.	12.53%	12.05%	12.16%	12.69%	11.63%	12.22%	12.21%
		Average COE estimate	11.12%	10.91%	10.93%	11.47%	10.63%	11.45%	11.09%
		Median COE Estimate	11.63%	11.16%	11.43%	11.70%	10.84%	11.64%	11.41%
		Lago Del Oro Water Company	NA	13.71%	NA	16.61%	15.21%	16.56%	15.52%